ACCA

ACCOUNTANTS FOR BUSINESS

Making capital markets work in emerging and frontier economies: case studies

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ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 154,000 members and 432,000 students throughout their careers, providing services through a network of 83 offices and centres. Our global infrastructure means that exams and support are delivered, and reputation and influence developed, at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities. Our focus is on professional values, ethics, and governance, and we deliver value-added services through our global accountancy partnerships, working closely with multinational and small entities to promote global standards and support.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

ABOUT ACCOUNTANTS FOR BUSINESS

ACCA's global programme, *Accountants for Business*, champions the role of finance professionals in all sectors as true value creators in organisations. Through people, process and professionalism, accountants are central to great performance. They shape business strategy through a deep understanding of financial drivers and seek opportunities for long-term success. By focusing on the critical role professional accountants play in economies at all stages of development around the world, and in diverse organisations, ACCA seeks to highlight and enhance the role the accountancy profession plays in supporting a healthy global economy.

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This paper presents five case studies on the development of capital markets in emerging and frontier economies. These first-hand accounts reveal the crucial human, social and regulatory capital that capital markets rely on and demonstrate how much local regulators and operators around the world can learn from each other.

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Foreword

Capital markets promote economic development and growth by allowing firms to tap large, international pools of savings to obtain the finance they need. In order to do so in a sustainable fashion they rely on institutions that ensure reliable financial reporting and assurance; those in turn depend on the skills and competence of professional accountants.

The relationship runs both ways. Nearly half of ACCA's members in emerging and frontier economies work in regional or global financial centres; their careers are linked either directly or indirectly to the fortunes of capital markets. It is no secret by now that these economies will dominate global economic growth in the future, but whether they will have access to adequate finance to fulfil their potential is by no means guaranteed.

ACCA believes that the important global debates on corporate governance, financial disclosure, and financial regulation cannot remain focused primarily on capital markets that have already achieved critical mass and whose success is beyond dispute; nor can they reflect forever the economic league tables of the past.

Therefore, we aim to bring policymakers, regulators, exchange operators and corporate decision-makers from the most dynamic emerging economies together on a regional basis in order to determine what lessons can be learned and shared from their successes and failures, why some markets succeed where others fail and what the profession can do to support financial development in the public interest.

We are pleased to present, in this report, a selection of highlights from the development of fledgling capital markets. Along with our discussion paper, *The Rise of Capital Markets in Emerging and Frontier Economies*, we hope they will provide all stakeholders with food for thought and help kick-start a much-needed global debate.

Helen Brand
Chief executive, ACCA

Introduction

Since the global economic downturn began in 2008, it has been clear that the world must look to the emerging economies of Africa, Asia and Latin America for growth. Despite a multitude of challenges, these regions have not only led the recovery, but are also increasingly claiming a greater role for themselves in global economic governance.

A diverse set of businesses are at the heart of this success story: from regional corporate champions with aspirations of rapid growth beyond their domestic economies, to state-owned enterprises trying to reach more of the people they were created to serve, and with better services.

Going forward, such businesses will need to be able to finance themselves more efficiently, and from multiple sources, as they continue to outgrow the narrow savings bases of their home countries and their still-developing banking systems. Without more cost-effective and diverse sources of finance, not only will emerging and frontier economies grow more slowly than they could, they will also become increasingly vulnerable to a new global banking crisis. And without access to the excellent investment opportunities available in these countries, savers and investors globally will be denied some of the best opportunities the world has to offer.

How, then, can we get capital markets to work for emerging and frontier economies? ACCA examined this question in the discussion paper, *The Rise of Capital Markets in Emerging and Frontier Economies*. Making capital markets work means ensuring that:

- standards of reporting and assurance are strong enough to inspire confidence
- market participants understand the risks they are taking and their responsibilities to one another and yet believe these to be justified by the returns available
- capital market activity is self-sustaining; markets are liquid and don't rely too much on 'hot money' that can evaporate overnight
- exchanges, regulators and governments think on a global basis and learn the lessons from successes and failures in neighbouring countries as well as other regions.

Of course, what appears to be common sense on paper can be a difficult process that takes many years in the real world. Building political consensus, human capital and trust in market institutions is a gradual and painstaking process, and one that is unique to each country. It is therefore hard to relate to the challenges faced by policymakers and other market participants on the ground without hearing their voices first-hand. The present report acknowledges this fact and uses a small number of focused case studies in order to get to the bottom of key episodes in the development of emerging and frontier markets during the last decade. The stories recounted here are told first-hand, in as much detail as practical.

One thing can be said with certainty, regardless of how the facts are approached. The accounting profession is instrumental to capital market development and without its support capital market development can be stunted or unbalanced. As the preparers, users or auditors of financial reports, they have an interest in upholding confidence in the rules and educate firms and investors where appropriate. In return, they can count on healthy capital markets to attract more business and potential employers to their countries and generate new career opportunities for them. Finally, the accounting profession is just as global as the capital markets themselves; it is an established network well suited to the task of transferring good practice around the world.

As the most global of the professional accountancy bodies, ACCA feels this responsibility most acutely. Nearly half (48%) of the ACCA membership in non-OECD countries work in regional or global financial centres and their fortunes are linked to those of capital markets, some of them in positions of authority that actively shape their development. Through ACCA they have access to an unparalleled network of local know-how that can guide the development and integration of capital markets and promote their healthy function.

ACCA will therefore continue to facilitate the regional and global debates on capital market development. ACCA's 2012 Council meeting in Nairobi, Kenya, has provided an excellent focus for this effort, tapping into a rising awareness of Africa's enormous potential for growth as well as African nations' commitment to further economic integration. The prospects for the entire continent have rarely been more promising; the profession, working in the public interest, will play its part in making them a reality.

1. Connecting Africa's stock markets, one step at a time

SPEAKING WITH ONE VOICE

Beatrice Nkanza (pictured right) is the CEO of the Lusaka Stock Exchange and is the chair of the Committee of the Southern African Development Community (SADC) Stock Exchanges (CoSSE).

CoSSE, Mrs Nkanza explains, arose from the interaction between SADC member states at the political level – it is in many ways an embodiment of their long-term goal of integrating the economies of the region. CoSSE is one of the Committees of the SADC – the others being the Committee for Central Bank Governors (CCBG) and the Committee of Insurance, Securities and Non-Banking Associations (CISNA), to which CoSSE reports. CCBG and CISNA themselves report into the Committee of Senior Treasury Officials who in turn report to the Council of Ministers. In this way, although the CoSSE is deemed a private sector association, its agenda is communicated to the SADC Ministers, representing the common interest of their capital markets.

Established around 1997, CoSSE counts among its members the exchanges of Botswana, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Some of its objectives are:

- to improve the operational, regulatory and technical underpinnings and capabilities of SADC exchanges and encourage the development of a harmonised securities market environment to facilitate trading, clearance and settlement within the SADC region
- to make the securities markets of SADC exchanges more attractive to both regional and international investors – among other things, by increasing market liquidity and enhancing trading in various securities and financial instruments
- to promote the development of efficient, fair and transparent securities markets within the SADC region, and encourage interaction among market participants
- to encourage cross-border trading and listings, as well as the exchange of intellectual capital and technical expertise among the member countries, and to maximise their cooperation.

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THE STATE OF INTEGRATION

CoSSE's primary mandate, Mrs Nkanza explains, is to pursue initiatives that drive visibility and foster growth for the benefit of all its members. The most immediate ways of achieving this are through enhanced cross-border trading and listings, which can be achieved without the cost of automation or other complicated initiatives. As a result, there are currently enough incentives to drive market development by this method. On the other hand, harmonising regulation (ie listing rules) and to some extent the use of technology are the two areas in which CoSSE is most active. It has achieved much on the regulatory side – its work on the harmonisation of listing rules among the region's exchanges, for instance, is counted as a success – while adoption of technology in the trading and depository side has proved more challenging.

Robust cross-border trading between the region's stock exchanges is not yet the norm: although the obstacles are many and varied, issues related to clearing and settlement are probably the most important. An even more fundamental obstacle is the fact that Africa's smallest exchanges are for the most part not automated and are under-resourced.

Automation is a very substantial investment and while national governments are working towards funding this, it is simply not available in all the exchanges. Additionally, differences in the regulatory arrangements can often make a difference. For instance, in countries such as Malawi, Lesotho or

Mozambique, trading in securities is regulated by Central Banks rather than by a regulator specialising in securities, such as a Securities and Exchange Commission (SEC). CoSSE does not, however, see this as an obstacle; instead, it believes SADC member states must be given time to come round to this way of operating (or not) as their domestic capital markets mature.

SPOKES COME OFF THE HUB MODEL

Until as recently as 2009/10, a hub-and-spoke model in which trades would be managed centrally was the favoured mode of integration for facilitating trading in the member exchanges. Yet the settlement side, ie the matter of a central depository, has not been tackled yet and is still a long way away.

Consequently CoSSE put a great deal of resource into examining the 'hub and spoke' approach; what it discovered, however, made it clear that this would take a long time. More importantly, the weaknesses encountered in the integration of payments and settlements prompted more research into the more fundamental requirements of market integration.

While support for the hub model is not dead, CoSSE is now aligned with the idea of a peer-to-peer model in which individual exchanges manage interoperability on a bilateral basis. Mrs Nkanza puts it this way: 'In order not to stop the train from leaving the station altogether, those exchanges that are able to may still go ahead'.

In so doing, Mrs Nkanza explains, CoSSE is also mindful of its own remit:

> *We don't have the mandate to dictate that our members give up independence to a focal point. Until they decide otherwise, the answer is to deal with each exchange independently at a level which they can manage, and encourage them to deal with each other on a peer-to-peer basis. You must remember, the market still dictates what is to be done; if the market conditions are such that they require a different approach, members will have a reason to reconsider.*
>
> *The exercise made us stand back and look at the underlying architecture required for the objectives to be achieved; is there an agreed template that can be used for clearing, settlement, custody? As we speak, the answer to that is 'No'. This made us look at other elements of the market infrastructure – clearing and settlement procedures, for instance, which are required for automated trading.*

With that realisation, CoSSE moved the focus of its attention to more cross-cutting market infrastructure issues, in the hope that when the technology for automation is available across the continent, the underlying systems will be in place to accommodate it.

Mrs Nkanza believes that member states have taken a keen interest in resolving issues around the processing of payments, which is after all cardinal to the development of their domestic financial industries. In fact, the CCBG has already produced and begun to implement its plan for integrating the national payments systems. On the other hand, CISNA has yet to establish a regional securities settlement procedure. A group of custody experts have been established as a subcommittee of CoSSE precisely to examine ways of dealing with this matter.

BACK TO BASICS

CoSSE provides the SADC states with a forum where they can benchmark their levels of capital market development, and through which ministers can share important insights. On a more personal level, Mrs Nkanza points out that CoSSE's most valuable contribution to date may have been to establish a platform of common practice among Africa's exchange operators and regulators. Because the continent's exchanges differ greatly from each other in both maturity and sophistication, there is a great deal of experience that more established exchanges such as JSE or Nairobi can share with younger or less developed markets. Until the establishment of CoSSE such access and interaction would have been difficult, but now senior staff at exchanges as well as operators can literally call their counterparts and discuss issues directly.

Because of the many obstacles on the way towards integration and the limitations of its remit, CoSSE has sometimes been the target of criticism, even from within, for being insufficiently action-oriented; Mrs Nkanza is keen that this criticism is taken to heart without driving the Committee to either confrontation or inaction.

It is true, there was often a feeling in the last six years that I have been part of CoSSE that it was difficult to see the agenda clearly – we had a very general agenda intention of working together to achieve more listings for e.g., without specifying how this was going to be achieved. The 'what' was clear, the 'how' not so much. There was a lot of introspection – what are we supposed to be doing within the context of our mission? We needed to ask those questions. Some members, for instance, believed that CoSSE needed to become a fully fledged committee of the SADC, in the hope that this would give it the power to champion more market-moving policies. Soon enough we realised we could move only so much given the reasons I have highlighted.

Around 2010, CoSSE addressed this by drawing up its first Strategic Plan. The latest progress report (April 2012) shows that many of the activities under the Plan have been shortlisted, and delegation is now in place, while a new Strategic Plan has been drawn up for 2012–16. Delivery is contingent on national markets maturing in time to allow for the next stages in its development, but progress is encouraging.

The overriding logic of the Strategic Plan is to maintain a tight focus on CoSSE's actual remit and, more importantly, those issues that are cross cutting. Mrs Nkanza explains the process of selecting initiatives for CoSSE to pursue as follows: 'Is it measurable? Is it cross-cutting, in that it benefits all members? Is it within the control and resources of CoSSE?'

Following this logic still leaves CoSSE with plenty to do over the next few years, focused mostly on capacity building and encouraging cross-listings. Investor education is one priority that CoSSE sessions have addressed – the point is to learn from one another in order to see how exchange operators can best engage participants in their local markets and explain to them the role of the stock exchange. The Johannesburg Stock Exchange (JSE) has assumed a natural role as coordinator, reflecting its more advanced stage of development and expertise.

CoSSE has also focused its efforts on enhancing visibility. A new website has been set up to provide investors with information on listings and other exchanges' information and has ample scope to grow into a richer resource. 'Without information', Mrs Nkanza explains, 'you cannot make even bad decisions.'

Nor are more far-reaching projects out of the question, but for all other things CoSSE will need to build on its existing programme of work before its remit can be effectively widened. For now, however, shared objectives keep CoSSE members focused on their mission.

We have one objective in mind – to achieve growth. We are no different [from other exchanges]. We're looking for more listings. We're still grappling with information dissemination, still trying to demonstrate to people that exchanges are there for their benefit.

THE PARALLEL LIVES OF REGIONAL EXCHANGES NETWORKS

CoSSE's multi-speed, peer-to-peer approach is not unique among integrating economic regions. Operators in the Caribbean have also reconciled themselves to a similar model of integration: Jamaica, Barbados, and Trinidad and Tobago, for instance, are the founding members of the Caribbean Exchanges Network (CXN), launched in late 2011, which allows investors in all three territories to buy and sell equities directly, instead of going through a home territory broker, as well as settling transactions through a bank of their choice. Like CoSSE, the original plan for CXN was to pursue a hub model: a regional settlement bank was originally envisaged but never materialised.

Could developments in the Caribbean illuminate regional integration in Africa? CXN comes complete with a regional regulatory framework governing the activities of Caribbean brokers, who must register with the authorities at each of the markets in which they intend to do business. Listings are home listings first, and subject to domestic rules and incentives, but brokers are mobile. A Memorandum of Understanding between domestic regulators ensures that they will support each other's supervisory and enforcement efforts. Registration processes are relatively seamless for those with good standing at home.

The Caribbean experience also demonstrates how gradual the process can be. More than 20 years

on from the first cross-border listings and trades, integration 'still isn't where we want it to be', in the words of Waine Iton, CEO of the Trinidad and Tobago Stock Exchange (TTSE).

We still have three discrete order books, for instance, and only eight or nine companies on the TTSE are cross-listed. It has been quite a struggle, but the logic is compelling: we really don't have the throughput to support five–six mini exchanges in the region, which is where we are; we duplicate tasks.

It is hard to tell how long it will take to reach the originally intended degree of integration, as Mr Iton freely admits. It could easily be another 20 years, or it could be much sooner.

MAKING IT WORK: MAINTAINING THE MOMENTUM TOWARDS REGIONAL MARKET INTEGRATION

- Models relying on a central regional hub are attractive but often impractical. Regional integration is more likely to succeed on a peer-to-peer, multi-speed basis, where exchanges are invited to join networks of collaborating operators as soon as the right systems are in place.
- It is easy to overlook the importance of domestic payments, clearing and settlement arrangements when plotting ambitious IT-based solutions for integration. In reality, however, while the implementation of such systems is only a matter of resources once the more fundamental aspects of trades have been harmonised, it is impossible if they haven't been harmonised.
- Automation of exchanges is absolutely fundamental, but requires very substantial resources. Governments must prioritise this and seek assistance where appropriate.
- Regional exchanges networks work best if given a clear remit to which they adhere tightly. It is important to arrive at concrete action plans focused on the network's unique remit as soon as possible, and to monitor their implementation regularly.
- The social aspect of exchanges networks is paramount to their role. It is much easier to share best practices if senior officials are in regular personal contact and can offer their expertise and resources to one another. This is easier to achieve in smaller regions such as the Caribbean than in much larger areas such as Africa.
- Exchanges networks around the world face remarkably similar challenges in the pursuit of regional integration. They have a lot to learn from each other but ties between them need to be strengthened.

2. Financial reporting squared: educating financial journalists in east Africa

For Uganda's Capital Markets Authority (CMA), making sure the public understands the role and function of markets is a statutory duty, part of its mandate to promote financial development. The government of Uganda hopes to mobilise private investment and pension money to boost the liquidity of Uganda's stock market while also offering individuals the opportunity to earn higher returns, but the CMA also knows that without appropriate education citizens could be exposed to risks they do not understand. Since the initial public offering (IPO) of Stanbic Bank in 2007 attracted a large number of retail investors into the stock market, policymakers have been wary of the exuberance that well-performing stocks can create and the losses that could accrue to careless investors.

In this understanding, the CMA has maintained a public education campaign since its foundation and its focus is on the most basic information – fundamental concepts such as saving and investment need to come before anything else. This has involved reaching out to schools and universities in partnership with the British Council and establishing financial literacy curricula and investment clubs. It has also extended into the workplace, with an 'office-to-office' initiative, and into the public sphere with the establishment in 2003 of the Kikonyogo Capital Market Awards for public financial education. For Ms Ann K. Muhangi, Public Education Manager at the CMA (pictured right), financial journalism is crucial to the CMA's cause of improving financial competences in the general population. A well-informed press, she says, can help popularise key concepts and educate the wider public, something that would otherwise require an enormous mobilisation of resources on the part of the government.

In evaluating its campaign, the CMA soon decided that it was impossible to educate journalists on how to report on capital markets without reference to the financial statements of listed firms and the way in which they are prepared. Since this usually meant bringing in accountants to discuss how financial statements are prepared, the CMA went straight to the source, signing a Memorandum of Understanding (MoU) with ACCA in 2008 that launched a joint education programme in financial journalism. This collaboration relied substantially on, and further strengthened, the two organisations' existing relationship.

Ms Ann K. Muhangi, Public Education Manager at the CMA.

The two signatories promised that each would do its part in sourcing expert presenters for the financial journalism education programme and that they would recruit a Technical Advisory Committee of 10 experts from across the whole of the financial services sector, who would support curriculum development, help assess skills gaps, and act as mentors for the participants themselves. ACCA and the CMA also agreed to provide support in kind for individual events on a rotating basis, ensuring a 50/50 split of resources committed and co-sponsorship of the annual CMA financial reporting awards. The CMA, which had previously awarded a prize only for 'best public educator' in this area, now committed alongside ACCA to honour the country's best financial journalist with an award each year.

This joint work was carried out by a small coordination team of no more than four; their job was to agree annual activity programmes on the basis of the MoU and monitor these through either quarterly or monthly meetings as required.

A small group of Programme Champions, including mainly editors but also financial experts, were brought on board to monitor news coverage by participants, pointing out evidence of improvement but also of lingering or emerging gaps. The Champions were chosen for their ability to engage others in the industry and for their personal impact, ensuring that the programme reached many of those journalists not nominally associated with it. The programme also achieved a wholesale endorsement by one publication, the Monitor, which made an explicit commitment to providing more and better coverage of financial stories and continues to adhere to this.

In practice, it was not very difficult to spot likely candidates in Uganda's

substantially segmented press and TV sectors. Editors themselves were encouraged to suggest staff who might benefit from or be interested in the training, and many responded. The first annual intake of 20 was fully subscribed, mostly by print media journalists. Nonetheless, ACCA and CMA also made a point of reaching out further into the industry. Journalists with an excellent grasp of the function of capital markets would be limited in what they could do if they were not allocated the space required, or if their stories were not given due prominence in their publications. These were both very widespread problems in Uganda's press at the time.

The two organisations resolved to win over the media, one editor or proprietor at a time. Editors themselves were offered training, a slimmed down version of that given to the journalists, which was aimed at helping them spot important stories, understand their impact, and appreciate the value of good reporting.

Recruiting expert lecturers was more challenging. In Uganda, as in many emerging markets, finance professionals often feel uncomfortable speaking to the media, whether on or off the record. The fear of being misquoted, having their thoughts misinterpreted, or being dismissed in favour of nameless 'sources' of dubious quality can often deter even very knowledgeable and confident people from discussing topical issues with journalists. Finding such experts who are also skilled educators, able to impart complex knowledge, was even more difficult but the two organisations' contacts (and ACCA's extensive membership network) were able to do this.

Nor was it equally easy to penetrate all the mass media; getting financial news on the radio remains a challenge for the campaign. Political debates dominate the airwaves and, with no proven demand for financial commentary, radio stations know they will struggle to ensure commercial sponsorship. On the other hand, it is impossible to demonstrate demand without being able to point to existing financial shows with a substantial audience. ACCA and the CMA are therefore now pursuing a different approach, speaking straight to radio station proprietors in order to understand their priorities and appeal to their venture capitalist instincts with a business case for financial news.

Their bosses in the various media may occasionally need persuading, but for ambitious journalists with an interest in financial services, the opportunity is too good to miss. In addition to their training they receive access to a network of mentors (the programme's Technical Advisory Committee) on whom they can call virtually any time during working hours to discuss the financials of listed firms. In addition, the winner of each year's coveted financial journalism award is flown to a financial centre in a neighbouring country (originally Nairobi but now Johannesburg) for a week of intensive training.

Following the programme's early success, the CMA and ACCA renewed their MoU in November 2011 – now with the benefit of an extensive review of the programme and feedback from participating journalists and their editors. As Uganda's capital markets develop and the knowledge of financial journalists deepens, new entrants to the programme have increasingly different needs from those of the original cohort of trainees. The emphasis is now shifting towards 'short and sharp' quarterly sessions on topical issues – and the first of these was held in March 2012. The aim is to promote financial reporting excellence, allowing participants not simply to understand and popularise, but also to comment in a more proactive fashion on individual institutions, assess their performance and uncover evidence of tampering or fraud. Participants have also asked for help in understanding the newly liberalised insurance and pensions sector, and in developing a deeper understanding of key concepts so that they can see past economic jargon. Clearly there is also a great deal of interest in ways of interpreting developments in the global economic downturn and recovery.

Within the organisations concerned, it is seen as a testament to the programme's effectiveness that the participants are increasingly analytically minded and critical. In fact, it is one of the ways in which the ACCA and CMA teams are measuring success.

More evidence of the programme's success is the personal development of participants (turnover is high as a result) and, perhaps more importantly, the increasing willingness of Uganda's financial experts to speak to the media – a fragile trust but one that is largely taken for granted in developed capital markets. The programme currently has between 15 and 18 long-term committed participants, depending on definition, who collectively have the potential to influence most of the coverage of financial news in the country.

Improving the capacity of financial journalists is a 'win-win' for investors, the public, regulators, professional accountants, journalists and the media industry. Improved financial reporting enhances investors' understanding of financial information and helps them make well informed investment decisions. ... [G]ood financial reporting will enable investors and the public at large to appreciate the role of professional accountants who prepare, audit and analyse financial statements. The journalists themselves gain new skills which will improve their reporting standards and confidence. Finally, the media industry as a whole will fulfil a public interest role by enhancing transparency, accountability and good governance in Uganda.

Japheth Katto FCCA CPA. CEO, Uganda Capital Markets Authority

MAKING IT WORK: BUILDING AN EFFECTIVE PARTNERSHIP FOR FINANCIAL EDUCATION OF JOURNALISTS

- Capacity building benefits greatly from a tested partnership between an accountancy professional body and a powerful local stakeholder convinced of the need for better financial journalism.
- Equal contributions of money, staff, contacts and facilities can help cement a collaborative relationship.
- It is important to educate decision makers at multiple levels to ensure buy-in.
- A core group of influences willing to champion capacity building can help ensure the success of such initiatives.
- An emphasis on 'many-to-many' networking and mentoring that offer participants rich opportunities for personal development can raise commitment and drive retention.
- Capacity building requires continuous evaluation of the skillset being imparted as well as its impact on actual outcomes.
- Committed, though not necessarily large, teams capable of rigorous project management can help ensure smooth delivery of such programmes.

Anthony Kariuki, ACCA's country manager in Kenya.

The programme, however, is also growing beyond Uganda. As Anthony Kariuki, ACCA's country manager in neighbouring Kenya (pictured left), explains, ACCA and the local CMA have been working since 2011 on a very similar initiative, which, while still in its early days, appears to be gathering substantial support.

As of May 2012, one full-day workshop has been held in Nairobi and business journalists have found it useful. Follow-up workshops are now being planned and the programme is set to expand. Delegations from Tanzania, Malawi, Swaziland and Rwanda have also expressed an interest and these markets could have similar initiatives in the coming years.

3. Counting the beans when money dies

Zimbabwe's hyperinflationary episode of 2007–8 is still a vivid memory both domestically and abroad; and while the country has thankfully moved on from the economic and political turmoil of those times, its experiences have a lot to tell us about how capital markets work at the extreme and, by implication, the basic assumptions on which their function depends.

Born in Zimbabwe, Mr Brian Hodza (right), now manager at Grant Thornton Camelsa, studied Economics at the University of Zimbabwe. Upon graduating in the mid-1990s, he worked in the field for the country's tax authority before moving into internal audit. When Mr Hodza left the country for Manchester, UK, to pursue his ACCA studies in 2002, inflation was already above 100%, hinting at the trials to come. In fact, this was nothing compared with what he encountered when he returned to Zimbabwe in 2007.

Hyperinflation is not simply a large increase in prices, the result of, say, a dramatic shortage of supply or perhaps a surge in demand. Rather, it is the result of people's complete loss of faith in fiat money. In the case of Zimbabwe, this was combined, as is often the case, with a loss of faith in banks' clearing systems. The result was a rush into commodities and foreign currencies that could function as alternative forms of money. In practice, this meant that firms were forced to shift some of their payables into alternative currencies, essential commodities or payments in kind, especially in the case of creditors from whom they could not afford to separate, including their own employees.

At the macro level, Mr Hodza saw inflation fundamentally change the character of the economy, creating a permanent cross-subsidy from the formal to the informal, from the creditor to the debtor and from the illiquid to the liquid. Arbitrage was becoming a survival skill: 'People speak of speculative behaviour elsewhere in the world, but it is nothing compared to what we experienced here. Everyone was forced to be a speculator.'

By July 2008 the annualised inflation rate had reached 231 million per cent (Hanke and Kwok 2009) and by November it only took just over 24 hours for prices to double. The Zimbabwe Dollar (ZWD) was dead. In response, the authorities finally allowed the use of multiple currencies in January 2009, effectively, the US Dollar (USD), the South African Rand (ZAR) and to a lesser extent the Botswana Pula (BWP), the Zambian Kwacha (ZMK), and the Mozambican Metical (MZN). By the time the ZWD was officially de-monetised in February 2009, most corporate entities were already used to reporting in USD.

IT'S A STOCK MARKET, BUT NOT AS WE KNOW IT.

Hyperinflation had a particular effect on the function of the stock market: shares as assets retained some of their ability to store value. Yet they ceased to be effectively liquid because they still had to be liquidated through the country's stricken clearing and payments system. This meant that the stock market was next to useless as an exit for entrepreneurs, venture capitalists and even investors themselves. The few IPOs still issued were mostly reverse listings as a result of acquisitions, usually themselves under-subscribed because of liquidity

Mr Brian Hodza, manager at Grant Thornton Camelsa.

constraints in the market. Private companies instead tended to rely on either shareholder loans or offshore finance to fund operations.

The few companies listed on more than one exchange (typically the Johannesburg and London stock exchanges in addition to ZSE) were an exception to this; in fact, at the height of hyperinflation, the 'Old Mutual implied rate', based on the ratio of prices for Old Mutual's shares at the ZSE and LSE, became the best estimate available for the true exchange rate of the ZWD. Trading on these shares was relatively unaffected because it was possible for international investors to capture and liquidate true value.

In fact, the distortions in the ZSE went even deeper. Cash-rich firms, ie those in sectors such as food retailing that tend to take payment in cash, became powerful in a distorted market for corporate control and

were able to pursue horizontal integration aggressively. Essentially, as liquidating shares became more problematic, the classic model whereby shareholders diversify their portfolios to manage risk and reward was inverted. Instead management now diversified its activities as captive shareholders hoped for the best. The legacy of this trend is still observable today.

REPORTING AT A CROSSROADS

The value of financial reporting under such extreme conditions is best described as fragile; the task itself as nearly impossible. Some of the obstacles are obvious: adherence to IAS21 (Effects of Changes in Foreign Exchange Rates) and IAS29 (Financial Reporting in Hyperinflationary Economies; especially 29.11 and 29.26) became increasingly difficult in Zimbabwe as more and more currency trading moved to informal markets and a many-tier system of exchange rates emerged, including an 'official' rate which was not used for reporting purposes. It then became effectively impossible once the ZWD ceased to be a convertible currency.

In addition, there were more insidious effects of hyperinflation that made reporting in general unreliable. The near-failure of clearing and payments systems had created a 'pecking order' among payment modes, as though they were all different currencies: foreign exchange trumped cash, cash trumped bank transfers and cheques. This in turn meant that individual transactions that should normally have been aggregated in financial reports were no longer fungible. And because only management really knew how all individual transactions were being settled and when, the resulting information asymmetry made it impossible to trust or even follow the financials of most listed firms. As Mr Hodza explains: 'The substance of transactions was difficult for an outsider looking in to appreciate. Management could engage in undetectable fraud'.

For auditors, audit risk became almost prohibitively high. Even basic transactions might not always be what they seemed, and it was impossible to know at which point the need for professional scepticism crossed over into 'over-auditing'.

> *In other circumstances you would have been able to carry out an analytical review, but this broke down in Zimbabwe at the time; the amount of information needed was a problem, the use of ratios was impossible. All one could do was to seek additional disclosures and representations from management, then apply professional judgement.*

This begs the question: why would anyone continue to audit companies that were plagued by such substantial problems?

'It would have been cowardly and unethical for audit firms and the profession at large to abandon companies just like that', Mr Hodza explains.

> *This was a systemic issue; it is not down to the integrity of individuals in management or individual companies. Of course, if you looked at auditor opinions there were massive amounts of added disclosures, and many modified audit reports, but the profession as a whole took a brave decision to carry on.*

In response to some of these reporting issues, Zimbabwe's Public Accountants and Auditors Board (PAAB) proactively issued a set of guidance notes in 2009 which modified the country's adoption of IFRS. This came to be known as the 'Zimbabwe Amendment', which was subsequently endorsed by the International Accounting Standards Board (IASB) in December 2010. The Zimbabwe Amendment essentially allowed companies to report under IFRS as though they were doing so for the first time, and provided a means of deriving fair values for assets using a combination of converted and historical values derived from market valuations and original invoices.

THE AFTERMATH

Post-dollarisation, Zimbabwe experienced stabilisation during 2010, and from 2011 its citizens returned to saving and investing. Trust has returned to some extent, and so have many Zimbabweans who fled the worst of the economic turmoil – the country is experiencing net inward migration as real wages continue to improve.

Trading volumes on the ZSE remained subdued even after the introduction of multiple currencies. While mining, petrochemicals, telecoms, software and retailing have done well, other sectors, particularly manufacturing, have struggled to turn themselves around and valuations are too depressed for holders to do anything but hold on to their shares. Perhaps most importantly, the market is still struggling to price in all available information on companies and their prospects, leading to widespread mispricing. This, Mr Hodza explains,

can often pass unremarked until a private placement/deal is done, usually by institutional investors who can carry out proper due diligence, at a very substantial premium over the listed price.

Prospects for the country's capital markets are also promising. In addition to the country's vast mineral wealth, Zimbabweans' high level of education and their fascination with the latest technologies also bode well for innovative firms operating in the country and the ZSE already appears to provide a good fundraising venue and/or exit for them.

Mr Hodza agrees that the government's flagship indigenisation programme is very controversial, but is optimistic.

Despite polarised views about whether or not the programme will act as an impediment to the function of capital markets, the people in charge of delivering it are capable of managing it intelligently and professionally.

Indeed, the National Indigenisation and Economic Empowerment Board and Fund (NIEEB-NIEEF), the agencies managing the programme, are staffed to a significant extent by experienced financial industry professionals, mostly bankers.

Perhaps the greatest misconception, arising in part from the government's high-profile standoff with miners, is that firms will have to comply with indigenisation overnight. In fact, for a window of time, companies will be allowed to diverge from the objectives of indigenisation, but only at a price – probably under a licensing and compliance framework similar to that employed for carbon elsewhere in the world. These revenues could be securitised or funnelled into a sovereign wealth fund (SWF).

Mr Hodza believes that in the long term the result will be a 'win-win', even in sectors where indigenisation is problematic; ROI in the diamond mining sector, he points out as an example, is more than 100% per annum. The typical company's initial capital outlay can be recouped in a matter of months. The returns are still huge even if some percentage is shaved off.

MAKING IT WORK: SOME OVERLOOKED RULES OF CAPITAL MARKET DEVELOPMENT

- The efficiency of capital markets and their capacity for accurate price discovery is not the most fundamental factor in their development and success. Markets can survive and grow despite flaws in these dimensions but will always struggle if they are not supported by robust and efficient payment, settlement and custody systems.
- Private information is problematic for markets, but it does not have to emerge by design; in reality any departure from common assumptions about the nature of transactions can potentially give rise to private information.
- Lack of liquidity can often distort the market for corporate control, providing incentives for integration regardless of the underlying business case.
- The professional judgement of accountants and auditors is particularly important in markets facing significant challenges. Where weaknesses in reporting are systemic, the profession needs to act to restore confidence.
- Sophisticated investors in emerging and frontier markets weigh all risks (including political and macro-economic risks) against returns; the returns to due diligence can be substantial for both sides.

4. Encouraging small listings in the Caribbean

THE JAMAICAN EXPERIMENT

In 2007, Jamaica was still looking for a breakthrough in the financing of small, fast-growing firms – to be sure, investment in the natural resources sector was brisk, but the rest of the economy was not building capital nearly quickly enough. Only about 2.9% of all investment in medium-sized businesses was financed by new share issues, leaving some of the region's most innovative and fastest-growing firms without a source of appropriate finance. (Artana et al. 2007).

Part of the policy and market response to this problem was what Mr Wain Iton, General Manager of the Jamaican Stock Exchange (JSE) from 1988 to 2004 and currently CEO of the Trinidad & Tobago Stock Exchange (TTSE) (pictured right), calls the 'Jamaican experiment'. In late 2008, the JSE proposed to launch its own junior market, in which listings from small firms would attract a fiscal incentive – zero income tax for five years after listing, 50% tax relief for the following five, 50% off JSE fees and complete tax relief on dividend payments, all on the condition that the issuer would not delist within 15 years.

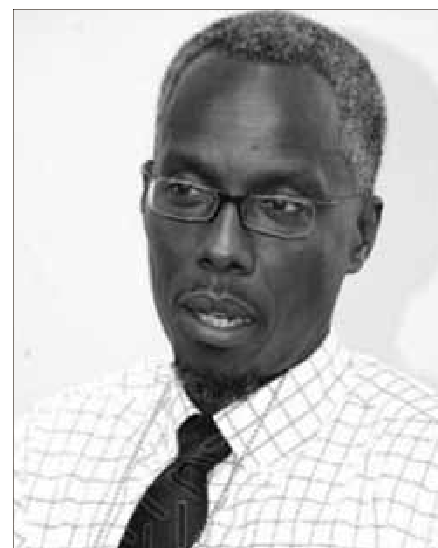
This tax incentive is at the heart of the 'Jamaican experiment' but there is more to this initiative. Issuers also need to make a formal appointment of a mentor to advise their boards on governance and compliance issues – and far from objecting to this intrusion, companies have appreciated the guidance and expertise that mentors bring.

Over its first three years of operation, the Jamaican junior board has been a resounding success, with 12 listings at the time of writing and, according to Mr Iton, 'maybe another eight' due for the second half of 2012. In late 2011 it was reported (Hudson 2011) that returns on junior market stocks in that year alone had reached a dizzying 73.8%, and in May 2012 the JSE's junior board achieved its first IPO of a pre-revenue company – C2W Music.

THE THIRD TIER

The early success of the JSE's junior board did not go unnoticed around the Caribbean, but was something of a catalyst for developments in Trinidad and Tobago, in particular. Both the TTSE and the Trinidad & Tobago Chambers of Commerce called for incentives for small issuers, although in the end it was the responsibility of the TTSE to put a concrete proposal on the table. In October 2011, the TTSE formally introduced the idea to Mr Winston Dookeran, then minister of finance, planning and the economy, who incorporated it into that year's budget statement:

> *...our small and medium enterprises continue to be over-reliant on bank financing....we will work with the Trinidad and Tobago Stock Exchange to create a third tier on the Exchange to provide Small and Medium Enterprises with access to the capital market.*
>
> *...for the first 5 years SMEs whose capital is greater than $5 million but less than TT$50 million and listed on the SME Market for trading purposes would be allowed a 10% corporation tax rate. The SMEs would be required to raise capital on the stock exchange through an initial public offering with a minimum of 25 shareholders holding at least 30% of the company's share capital. This initiative will be reviewed every five years. We expect this tax incentive regime to encourage small and medium-term enterprises to access resources from the capital market.*
>
> (Government of Trinidad and Tobago 2011)



Mr Wain Iton, General Manager of the Jamaican Stock Exchange (JSE) from 1988 to 2004 and currently CEO of the Trinidad & Tobago Stock Exchange (TTSE)

IF AT FIRST YOU DON'T SUCCEED – DON'T LOWER YOUR STANDARDS

Facilitating SMEs' access to the capital markets was not, of course, a new aspiration and nor did it originate with the success of the Jamaican experiment; in fact, when the idea was proposed, Trinidad and Tobago already had a second-tier market, targeting companies with capitalisation of less than TT$2m. Only two firms were listed, however, and their stocks were far from liquid. The reasons for this lack of success are complex, but Mr Iton notes

particularly the challenge that public scrutiny represents for would-be issuers.

> *Coming to market, opening up their books, dealing with full disclosure and transparency is a pretty big deal for them. Without [any added] incentive I don't think there was a sufficiently large 'carrot' to pull them on board.*

As with governance, there is also no intention of relaxing disclosure and assurance requirements as a means of encouraging SME listings – Mr Iton is keen to stress that the junior boards of the TTSE impose on issuers the same obligations for regular reporting and assurance as does the main board, and must continue to do so:

> *There's no relaxation at all. The rationale is simple. If you ask people to invest in a risky class of assets, they have to know what they're investing in, there has to be full disclosure.*

WHO IS THE THIRD TIER FOR?

The JSE's second tier might now have its first pre-revenue IPO, but it did not start this way – no market ever has. In Trinidad and Tobago the focus is on high-quality, high-profile listings that can inspire trust in the fledgling market. A typical early third-tier listing would be an already well-established firm, usually owned by a single family or business group, with significant growth plans. For instance, Persad Supermarkets, a family firm and a household name, announced in November 2011 that it would like to see D Food King, one of its most promising subsidiaries, listed on the third tier of the TTSE.

The presence of influential families and business groups is of course a mixed blessing. Third-tier companies have to be informationally transparent, must have at least two independent board members, and must have 30% of their shares distributed among at least 25 owners. Not all would-be issuers are willing or able to conform to these requirements, but TTSE are confident that, once a company is convinced of the benefits of listing, market discipline will work alongside regulation to ensure governance is taken seriously.

The third tier is a springboard to the first: it is not meant as an exit for venture capitalists: successful firms backed by venture capital and private equity should be too big to qualify and will be expected to list on the TTSE's main board. Nor is it meant to lure in foreign listings from the steadily integrating Caribbean economic region: the tax incentive that is so central to the success of this structure only applies to firms with a physical presence in the country. In fact, in scrutinising the legal framework for the new market, Parliament was keen to ensure there could be no abuse of the tax incentive and that it remains targeted at smaller businesses.

IF YOU LAUNCH IT, WILL IT FLY?

Once the appropriate incentives and rules are in place – as they are for the TTSE's third tier at the time of writing, the regulatory and governance framework needs a certain amount of time to bed down and the business case for listings must be made. Jamaica's junior board got its first IPO one year after the JSE submitted its official proposal, suggesting that the TTSE could expect its first third tier IPO in late 2012. Mr Iton explains:

> *We know that it's not manna falling from Heaven, we have to do the work; our brokers have to go out and find candidates and go out and bring them to market; it's a challenge and it's well worth picking up. We want to get to the end of 2012 with at least one listing so that momentum can begin and go from there.*

Although market capitalisation is the usual measure of stock market growth, in emerging economies and fledgling markets in particular it is far from the most important metric. For the third-tier market, TTSE will be initially monitoring the number of listings, and eventually liquidity as proxied by market turnover. Mr Iton expects that the government's criteria for success will be very similar, although in keeping with their mandate politicians will also want to scrutinise the impact of listed firms on employment and their local communities.

After this there is the challenge of deepening the market, as Mr Iton explained:

> *Having an issuers' market is not enough. We need a secondary market. We certainly could do with a lot more secondary market activity on our main board.* [TTSE's trading activity] *peaked in 2004, when we traded about 312m shares, valued at $TT3bn, and with an average daily volume of 2.1m shares. Since then, figures have shrunk considerably.*

WHAT WOULD HELP ACHIEVE THIS?

Attracting good quality listings is part of the solution. The TTSE is working on this, tapping its own networks as

well as professional networks, such as those among bankers and accountants, to source good referrals. Then there is also the greater challenge of attracting retail investors – and here too quality is the objective. Establishing equity as an asset class requires education, not awareness-raising.

> *It's a big public education thrust that is necessary. I don't think people fully understand what options there are, what the opportunities are, what the responsibilities are, what the risks are. We have a shareholder base that is at best between 5% and 10% of the population.*

Even so, Mr Iton is optimistic. He points to the success of the Unit Trust Corporation (UTC), which at 30 years of age is a year younger than the TTSE and yet has managed to attract 500,000 customers out of a population of 1.2m. Here too, tax incentives played a significant part – unit-holder returns were tax free – but more importantly the UTC's model has managed to capture the imagination of a large pool of citizens. The potential for further participation, it appears, is substantial.

Nonetheless, as he points out, retail investors are also more vulnerable and their faith is easily shaken: unless financial reports are clearer and easier to understand, and people are assured that standards of reporting and assurance are vigorously upheld, the third tier (and indeed all the TTSE's boards) could suffer from the first high-profile failure of a listed firm that arises.

MAKING IT WORK: INCENTIVES FOR SMALL ISSUERS

- While tax concessions can help encourage small businesses to list, relaxing the reporting and assurance standards associated with small issuers does not provide an incentive. What issuers might gain in costs saved, they are almost certain to lose in liquidity and demand for their stock – ie in costs of capital.
- Tax incentives are often as important for their marketing value as they are for the savings they provide for companies or investors. A tax concession immediately engages the press and adviser community and can help capture the imagination of the wider population.
- The advice and guidance of a seasoned market specialist is important to companies trying to navigate their new obligations as a listed firm, and they themselves appreciate this.
- It is important to define clearly what kinds of companies are meant to benefit from tax incentives, in order to ensure that incentives are properly aligned to policy objectives.
- High-quality listings are crucial to the early days of a junior board. Authorities should engage promising private firms directly as well as working with accountants and finance providers for high-quality referrals.
- Issuers' markets are not enough to ensure financial deepening. Secondary market activity is the true measure of market development.

5. From water, a river: the road to Cambodia's 'first' IPO

When Cambodia's Phnom Penh Water Supply Authority (PPWSA) announced a date for its long-awaited initial public offering (IPO) on the newly-launched Cambodia Stock Exchange (CSX) in March 2012, the event was hailed by observers of the capital markets as a critical milestone: the day the country was truly integrated back into the global financial system after years of isolation. In fact, there were multiple objectives behind the launch of the CSX that were far from symbolic: overcoming the limitations of the country's under-developed banking sector, deepening the financial sector, and freeing the central bank to pursue monetary policy by reducing the country's dependence on the US dollar.

Utilities such as PPWSA are usually seen as defensive investments, chosen for security rather than massive capital gains. In a rapidly growing country where expanding access to clean water is a top government objective, however, PPWSA's growth prospects seemed extremely bright and thus its IPO was eagerly anticipated by investors. Nonetheless, during the planning of the public offering its eventual success was never assured.

LEARNING THE ROPES

The launch of the CSX and the PPWSA IPO were preceded by a mass, top-down capacity-building programme. First, the Cambodian Economy and Finance Ministry formed a partnership with the Korea Exchange in 2007, tapping its expertise in order to train officials for what was to become the Securities and Exchange Commission of Cambodia (SECC) – a collaboration that was replicated in neighbouring Laos. South Korea's early involvement was in fact even more widespread: a new financial district being built by South Korean-backed World City on the outskirts of Phnom Penh was proposed as the site of the CSX, and Korean Exchange took a 45% stake in the CSX.

Cambodia's Capital Market Institute began training prospective staff for the CSX in 2009 in collaboration with Paññasastra University, with over 5,000 prospective investors attending a series of over 200 stock trading seminars in Phnom Penh organised by Phnom Pehn Securities, one of just seven securities firms licensed by the SECC. This number was deliberately low; the authorities were determined to keep the number of licensed companies below ten, partly in order to ensure that the highest professional standards were upheld.

The later stages of the public education challenge were significant because popular understanding of equities as an asset class was near-zero – would-be investors often only knew shares were a means of making money, an attitude which, left unchecked, could expose them to significant risks. As Phnom Penh Securities CEO, Stephen Hsu, put it: 'Almost all the clients do not know how to trade and what a stock is. The human character is to make money, and the stock market is one of the key methods' (Koh 2012).

Nor was this the only difficulty. The CSX itself was originally meant to launch in 2009, but despite optimistic statements made in public, the authorities were brutally realistic. CSX deputy director Dr Huot Pum explained: 'The process of developing this market needs time, and to talk about success: There is no progress unless there is involvement' (The Cambodia Mirror 2009). This attitude was justified. The global financial crisis and resulting economic downturn further dampened the prospects for the fledgling exchange, and the legal framework regulating listing and trading in securities took time to put into place. Most importantly, the CSX needed quality issuers that would inspire confidence among investors.

THE CHALLENGE OF COMPLIANCE

PWSA was not the only contender for Cambodia's first IPO: Sihanoukville Autonomous Port, the Phnom Penh Water Supply Authority, the state power company Electricité du Cambodge and Telecom Cambodia were also mooted as candidates. The process of listing was not without obstacles for these state-owned enterprises (SOEs).

As late as mid-2011, Tong Yang Securities, charged with preparing the Telecom Cambodia and PPSWA IPOs, reported that the companies still needed time to ensure that they were fully compliant with market regulations. Listed companies had to be headed by an effective board composed of between 5 and 15 members, at least one-fifth of which would need to be independent directors capable of exercising judgement independently of the views of management, political interests or inappropriate outside interests. The board would need to constitute an audit committee and, in some cases, a risk management committee. Some

companies would have to restructure even more drastically in order to align their corporate structures with the requirements for a listed company. Moreover, companies would need to comply with Cambodian International Financial Reporting Standards (CIFRS), the local implementation of IFRS. Accordingly, capital market experts were quick to caution international investors against investing in Cambodia without thoroughly understanding corporate governance arrangements and monitoring reforms

The process of achieving compliance was complicated by the fact that Cambodia's accounting profession was in its formative stages when plans were first laid out for the CSX; ACCA was (and still is) collaborating closely with the authorities to raise the profile of the profession. In 2007, the World Bank concluded that:

> *There is little awareness of the importance of quality financial information in Cambodia.... Auditing in Cambodia is perceived as an exercise of little value. The law does not outline which standards should be followed in conducting audits. Cambodia's accounting profession is largely dominated by the members of the Association of Chartered Certified Accountants of the United Kingdom. The Kampuchea Institute of Certified Public Accountants and Auditors is in its early stage of development and should be geared to contribute in creating an enabling environment for high-quality corporate financial reporting and auditing practices in the country.* (World Bank 2007)

Finally, there was the challenge of overcoming reluctance on both the supply and demand sides: issuers face significant costs when listing, against uncertain returns, and investors trading in a newly established exchange face substantial learning costs. As elsewhere, fiscal incentives were used to compensate prospective issuers for the costs and risks associated with an IPO: during the first three years of listing, listed companies would enjoy a 10% corporate tax relief, bringing their total corporate tax liabilities down to 18% of profits, while public investors would enjoy a 50% relief on withholding taxes on dividends and interest.

THE 'BIG DAY' AND ITS AFTERMATH

PPWSA finally went public on 17 April 2012, nine months on from the launch of the CSX. The IPO followed a book-building process that was 17 times oversubscribed, and during which 70% of the company's free float was offered, putting it on track to raise over $20m. Even though the price determined prior to the IPO was seen as relatively high for a utility company, and the fact that the stock's price was allowed to fluctuate upward by a maximum of 50% but only by 10% downward, concerns proved unfounded. On the first day of trading it climbed by another 48%, a result that delighted both the authorities and early investors; it peaked on 23 April, recording gains of a further 11%.

Of course, these figures must be put into context. The company's free float amounted to 15% of its total value, and only a fifth of this was traded on the first day. Moreover, despite very broad interest in the IPO, ownership of traded PPSWA stocks was still highly concentrated. The top 25 accounts issued with shares at the book-building stage accounted for 49% of the company's free float at the time, or 34% of the sum of traded shares (PPWSA 2012). Nor were all investors private; the PPWSA's pension plan, for instance, was a major investor.

LEARNING THE HARD WAY

Although PPWSA's IPO was hailed as a success, eager daily price-watchers have piled pressure on the company and the authorities through sheer weight of expectation. In late April and early May 2012, it took only eight straight trading days[1] (24 April to 4 May) of falling prices to raise concerns among investors and even cause some to question other planned IPOs. During this time, the stock price fell to 26% below the first day closing price – still well above its original offering price, but no doubt disappointing those who jumped on the IPO bandwagon too late.

Fortunately, calmer voices have – for now – prevailed. As Director General Lou Kim of the Sihanoukville Autonomous Port explained:

We were a bit concerned [by the decline]. But I do believe the government will carefully manage the issue. I didn't think of delaying the IPO even with the decline in PPWSA's share price. What I am thinking now is to speed it up as fast as we can to follow the government's request.

1. Note that this interval includes one weekend and 1 May is Labour Day, a public holiday in Cambodia.

Lao Saroeun,Telecom Cambodia director general, took a similar view: 'That's business which is normally increase and decrease [sic] depending on the market.' In fact, all the foremost would-be issuers in Cambodia noted that they were more or less unconcerned and were committed to a course agreed with the authorities regarding their prospective listings (Kunmakara 2012).

PPWSA's stock price later stabilised, but a fundamental lesson had been learned. Market forces drive stock prices and past returns, as investors are regularly warned, can go down as well as up – a long period of enthusiasm such as the one that followed the PPWSA IPO was bound to be followed by a correction. Even with the most intensive public education programme in place, investors still need to learn this lesson from experience.

MAKING IT WORK: A TRANSITION ECONOMY'S FIRST IPO

- Capacity building is paramount to the success of new stock exchanges and must be carefully planned well before launch at all levels: from regulatory staff to brokers and retail investors.
- Fledgling exchanges can benefit strongly from the experience and expertise of more established markets; higher-income countries can provide best-practice hubs for the emerging markets in their regions.
- New exchanges rely critically on high-quality listings. In countries with little or no experience of capital market activity, however, achieving compliance with governance and disclosure requirements can take a lot of work. It is crucial that the accounting profession be prepared for their new role in time, and the expertise of a global professional body can be a catalyst for such capacity building.
- Early issuers and investors in a fledgling market face particular costs that policymakers can reduce only to some degree; fiscal incentives are important for overcoming the reluctance such costs can create among market participants.
- Investor education, however well pursued, is not a cure-all. Investors with no experience of the capital markets will often need to find out the hard way that stock prices can both rise and fall. This does not mean public education is not important; but it does mean that authorities need to have additional protection in place to ensure the public is not swept away on a wave of euphoria.

Conclusions

The present collection of case studies is not an exhaustive catalogue of topics of interest to policymakers or market participants; nor is it a scientific study of capital markets whose findings can be generalised globally. Nonetheless, the rich information provided here raises important questions about the future of emerging and frontier markets and provides engaging, first-hand accounts of their function under various circumstances. Briefly, the following key lessons have emerged from this exercise.

Regional integration is an important trend among emerging capital markets around the world, and one to which the naturally globalised accounting profession can contribute a great deal.
The experiences recorded here show that grand designs of a centralised structure often give way to multi-speed, peer-to-peer models of collaboration. Exchange networks working on this agenda need to ensure that they set clear, achievable goals that adhere closely to their institutional remits. Capacity building is a crucial element of integration, with more established exchanges providing a valuable source of expertise and good practice for their peers. While this process works well on a regional basis, there is scope for further collaboration at the global level; clearly some of the challenges of regional integration are very similar across regions and there is a wealth of experience to be shared. Disseminating such insights, however, involves regular interaction on a personal level.

There is a great deal of often-overlooked infrastructure on which markets rely, both tangible and intangible.
Payments, clearing, settlement and custody systems are crucial for ensuring the correct function of markets, and connecting these systems is a prerequisite for market integration at the regional level. Frontier markets need to prioritise these elements before moving on to more visible investments. Exchange automation is another challenge for frontier markets, with countries often requiring careful planning, even external assistance, to help them cope with the substantial investment required.

In emerging and frontier economies there is no room for relaxing disclosure and assurance requirements.
Investors cannot be expected to assume the risk that comes with investing in what is often a novel and illiquid asset class without the best quality information possible, nor can they be expected to participate in markets where crucial information remains private. Policymakers and the accounting profession must champion the value of disclosure and assurance tirelessly to ensure high-quality listings, but companies may at first struggle to adjust to these requirements. Policymakers need to allow for this learning process by encouraging would-be issuers to seek the guidance of competent and independent advisers.

No market enjoys a perfect record of disclosure or assurance.
In emerging and frontier economies it is particularly important for the accounting profession to distinguish between problems specific to individual listed firms, which must be challenged strongly by individual accountants and auditors, and systemic problems that must be dealt with at a higher level. Faced with persistent systemic weaknesses, accountants must be ready to exercise professional judgement and assume the responsibility that comes with it.

Fiscal incentives have an important role to play in the development of fledgling markets.
While it is unhealthy for markets to be dependent on tax incentives indefinitely, these are important in balancing out the one-off learning costs assumed by early investors and issuers. The key is to ensure that the applicability of incentives is well defined and tightly aligned with policy objectives.

Public financial education is a crucial element of capacity building.
The participation of the wider public is necessary if liquid markets are to be sustained without exposing private investors to disproportionate risks. Policymakers have understood and correctly prioritised this. In practice, developing the public's ability to understand capital markets requires patience and the intelligent use of appropriate channels to ensure maximum impact. As the preparers and interpreters of financial accounts, finance professionals are excellently placed to assist in this process and ACCA has been able to put such people's skills to use to ensure th at the mass media play their part by providing the public with high-quality information.

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