

The Effectiveness Of Commitment To Disclosure And Transparency Principle And Its Impact On The Saudi Stock Exchange Performance

فعالية الالتزام بمبدأ الإفصاح والشفافية وانعكاساته على أداء السوق المالي السعودي

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Abstract :

ملخص :

The current research explores the effectiveness of commitment to disclosure and transparency principle and its impact on the Saudi stock exchange performance. The different concepts of disclosure and transparency principle are emphasized; in addition to the main benchmarks to measure the Saudi stock exchange performance; for instance, market size and market liquidity indicators. The present study aims to know the various components of the Saudi stock market.

Keywords : Disclosure;
Transparency; Performance; Saudi
Stock Exchange.

نحاول من خلال هذه الورقة البحثية تضمين دراسة تطبيقية لفعالية الالتزام بمبدأ الإفصاح والشفافية ومدى انعكاساته على أداء السوق المالي السعودي، حيث ركزنا على المفاهيم المختلفة لمبدأ الإفصاح والشفافية في الأسواق المالية بالإضافة إلى أهم مؤشرات قياس أداء السوق المالي السعودي، حيث بينت نتائج الدراسة الأثر الإيجابي للالتزام بمبدأ الإفصاح والشفافية ومساهمته في دعم أداء السوق المالي السعودي.

الكلمات المفتاحية: الإفصاح، الشفافية، الأداء، السوق المالي السعودي.

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INTRODUCTION:

The commitment to disclosure and transparency principle may be one of the main determinants of capital markets' development in general and stock exchange's growth in particular. Rather, supporting these markets' activity and increasing their effectiveness can depend heavily on the confidence that investors conferred to participants in the available published information from several resources, as well as the extent of its credibility and objectivity.

Furthermore, increasing the level of stock exchanges' performance and improving their activity may depend largely on the degree of transparency and disclosure of information; as well as the validity and accuracy of financial reporting disclosed to companies listed in the stock market, i.e., on the availability of information and statements to investors in terms of speed of flow and equitable access to benefit from them, besides the costs of obtaining them provided that this financial information of securities' issuers and their trading conditions are authentic.

Therefore, investors' confidence will be reinforced which may contribute to increase and improve markets' performance and can consequently help increase the number of listed companies and expand transactions and investments' volume. Hence, most Arab countries have realized the importance of having organized stock exchanges. Thus, they have established stock exchanges which are fairly novice compared to global ones though.

For instance, Saudi Arabia attractiveness of investments, due to its financial policies and vision for the year 2030, may have enhanced disclosure and transparency degree in the stock exchange and facilitated investors' entry to it. In accordance with the foregoing, the current study addresses the following problem:

To what extent is the commitment to disclosure and transparency principle effective in enhancing the Saudi Stock Exchange's performance?

1- Research Hypotheses

- a) Disclosure and transparency principle is an important tool in supporting stock exchanges' activity;
- b) Saudi Stock Exchange's experience is among the most important experiences in the novice Arab stock exchanges in terms of performance;
- c) The Saudi Stock Exchange commits to disclosure and transparency principle in its transactions, which contributes to increasing the level of its activity;

2- Aims of the Study:

The current study aims to;

- a) Identify the theoretical framework of disclosure and transparency principle;
- b) Highlight the importance of disclosure and transparency in reinforcing the Saudi Stock Exchange activity;

- c) Identify the degree of disclosure and transparency in the Saudi Stock Exchange;
- d) Identify the extent of commitment to disclosure and transparency principle.

3- Research Methodology

With regard to the nature of the discussed elements in the first chapter, a descriptive approach is used to answer the current research questions and to accept or reject its hypotheses. In contrast, an analytical approach is applied in the second and the third chapters for the Saudi Stock Exchange's statements analysis and interpretation. Thus, the researcher would draw reliable and valid conclusions on the effectiveness of commitment to disclosure and transparency principle.

I- Stating the Content of Disclosure and Transparency Principle in Stock Markets:

I-1- Definition of the Disclosure and Transparency Concepts: transparency and disclosure are perhaps two terms that have gained wide currency in stock markets due to their importance because the effectiveness of these markets' activity depends on them. The definitions of these concepts are reviewed as follows:

I-1-1- Definition of Disclosure:

A comprehensive definition of disclosure may have remained controversial among scholars. Yet, the researcher suggests the following definition:

Disclosure is the process of demonstrating financial facts within the financial statements, margins, notes and/or supplementary tables at the appropriate time, whether quantitative or descriptive, which may not make the financial statements misleading and will be appropriate for foreign participants who have power to examine books and records (Hammad, 2000).

Therefore, disclosure is possibly the process of transferring financial information to the third party of participants; whether shareholders, regulatory authorities, potential investors or others; in order to prevent fraud, deception and illegal practices that would harm the project participants (Abuzaid, 2011). Hence, financial information users will make appropriate decisions based on the available financial information disclosed by financial market participants.

I-1-2- Definition of Transparency:

Information and statements' activities are provided by joint stock companies of initial public offering and made available to shareholders and participants; except for those information that may negatively affect the company's interests such as; industrial secrets, supplier relations, etc (Kalthoum & mohamed, 2017).

Based on the above definition, it can be suggested that transparency is the availability of clear financial or non-financial statements by companies on its fairness of financial statements, as well as all the company's transactions; thus, the current and future activities can be predicted taking into account the company's right to withhold information that would negatively affect its

interests; as transparency in stock markets means to accurately and adequately make information available to all participants at the appropriate time.

I-2-The Importance of Commitment to Transparency and Disclosure

Principle in Stock Markets :

Commitment to disclosure and transparency can have a significant role in stock markets and current transactions; this is due to equitable access to benefit from this information among the various participants; whether they are experienced or novice in the field of investment. Moreover, this commitment aims to enhance the level of these markets' efficiency and achieve a fair price for the traded securities; additionally, it embodies corporate governance principles.

I-2-1- Promoting Parity between Investors in the Stock Market:

Commitment to disclosure and transparency principle has been created to protect investors, particularly small-scaled investors who have access only to available information at confronting large investors who may receive distinctive or private information which can enable them to make extraordinary profits at the expense of those small-scaled (Salam, 2013).

Additionally, speed of flow and equitable access to benefit from the available information helps increase the number of investors or those seeking to enter the market that may increase transactions' volume and breadth. Furthermore, commitment to disclosure and transparency principle in promoting parity between investors in the stock market; gives a clear view for non-participants in making decisions whether to access financial information and its realities.

I-2-2- Enhancing the Level of Stock Markets' Efficiency:

Commitment to disclosure and transparency has an impact on the efficiency of the stock market. This can be reflected in stock prices' response to changes in statements and information's results of analysis. In fact, this response occurs quickly leading to equivalence of the share market value with its factual value. Thus, under this commitment all investors can make the same gains exclusive of additional profits at the expense of other participants (Abdulsalam, 2007).

The efficiency of stock markets depends on the availability of information and statements to investors in terms of speed of flow and equitable access to benefit from them, besides the costs of obtaining them, i.e. the degree of disclosure and transparency of available information in the stock market. Accordingly, there is a direct correlation between the efficiency of the stock market and commitment to disclosure and transparency principle.

I-2-3- Embodying Corporate Governance Principles :

Commitment to disclosure and transparency is one of the most important principles of corporate governance. This commitment to disclosure of financial information and statements helps companies in achieving profits and in supporting their share price in the stock market; in addition to increasing the company's market share and the yield on capital. Moreover, this

commitment has a vital role in providing the necessary information for shareholders, investors and external bodies. However, commitment to disclosure and to transparency, which results in the provision of information related to the company's investments and activities, is not absolute rather a restricted commitment that would not negatively affect the company's interests, public interest or would prejudice investors' interests (Mousa, 2010).

II- Main Benchmarks to Measure the Saudi Stock Exchange Performance

II-1- Market Size Indicators

The market size is generally measured using two main indicators:

II-1-1- Listed Companies Number's Indicators:

The Saudi Stock Exchange has witnessed a significant increase in the number of listed companies, where it reached 127 listed companies in 2008 to evolve to 190 listed companies in 2018. This is probably due to the fact that the Saudi Stock Market is a developed market where the volume of offers of shares and debt instruments had reached SAR 412.86 billion during the period of 2013 and 2018.

Additionally, Saudi Stock Market is characterized by an attractive investment climate that may help companies achieve significant profits. Moreover, the market consists of several different sectors where the financial sector represents the sector of basic materials. The latter is the largest part of the market in terms of the number of listed companies, which increased to 42 companies with a traded value of SAR 15.11 billion and 528.14 million traded shares during the year 2018.

The following table shows the increase of listed companies' number on the Saudi Stock Exchange:

Table n°1: The Increase of Listed Companies' Number during the Period 2008-2018

Years	Listed Companies' Number	Change (%)
2008	127	-
2009	133	4,72
2010	145	9,02
2011	150	3,45
2012	159	6
2013	163	2,51
2014	167	2,45
2015	171	2,39
2016	174	1,75
2017	180	3,45
2018	190	5,55

Source: Quarterly bulletins of the Arab Monetary Fund

II-1-2- Market Liquidity Indicators (Market Value Indicators):

The market capitalization rate is measured through the shares' value listed on the market and relative to the country's gross domestic product (Rihan & Hamdaoui, 2013). This indicator reflects the extent to which the market is able to mobilize the necessary resources for investment, i.e. its ability to mobilize savings to be directed to institutions that invest their resources and are

inscribed in the stock market (Aiaouedj, 2017). As for the Saudi Stock Market's capitalization, the issued shares' market value for the year 2008 amounted to SAR 924.53 billion; a lower value compared to the following years. This is due to the repercussions of the global financial crisis in the same year and the decline of global financial markets in general, which caused concerns to investors. Consequently, the issued shares' market value reached a total of SAR 1270.84 billion in 2011, a decrease of 4.12% compared to the previous year due to the Arab geopolitical events in general and the Middle East in particular.

Moreover, the year 2015 witnessed a decline in the market value compared to the previous year by 12.9% due mainly to the collapse of oil prices in the international markets. As a consequence, investors' perception and confidence in future economic prospects of these countries had been negatively affected. In addition to that, the market value witnessed a significant increase relatively affected by allowing foreign investors to trade directly in the market with beginning of the year 2016. Moreover, the recent legislation in Saudi Arabia has given preference to the investments of major international institutions in the Saudi Stock Market. As a result, its market capitalization has increased as it reached a total of SAR 1858.95 billion in 2018, equivalent to 495.72 billion US dollars. An increase of 10.02% compared to the end of the previous year, due to the listing of 11 new companies with a total capital of SAR 10.91 billion. The following table highlights the progress of the market value of the Saudi Stock Exchange during the period 2008-2018

Table n°2: The Progress of the Market Value during the Period 2008-2018

Year	Market Value (SAR billion)	Change (%)
2008	924.53	-
2009	1195.51	29.31
2010	1325.39	10.86
2011	1270.84	-4.12
2012	1400.34	10.19
2013	1752.86	25.17
2014	1812.89	3.42
2015	1579.06	-12.90
2016	1681.95	6.52
2017	1689.60	0.45
2018	1858.95	10.02

Source: Annual Statistical Report of the Saudi Stock Exchange (Trading) 2018

II-2- Market Liquidity Indicator:

The total value of shares traded reached about SAR 870.86 billion (USD 232.23 billion) in 2018 with an increase of 4.14%, compared to SAR 836.27 billion in 2017, equivalent to 223.01 billion USD. The total number of shares traded amounted to 37.82 billion shares during the year 2018 compared to 43.30 billion shares traded in 2017, with a decline of 12.65%. The overall executed transactions were 25.01 million during 2018 compared to 21.90 million executed during the previous year, with an increase of 14.23%.

Table n°3: The Progress of the Saudi Stock Exchange's Liquidity Volume during the period 2008-2018

Year	Value Traded (SAR billion)	Change (%)	Number of Shares Traded	Change (%)	Number of Executed Transactions	Change (%)
2008	1962.94	-	61732784307	-	52135929	-
2009	1264.01	-35.61	57811926725	-6.35	36458326	-30.07
2010	759.18	-39.94	34052201468	-41.10	19536134	-46.42
2011	1098.83	44.74	48406342363	42.15	25546933	30.77
2012	1929.31	75.58	78198784702	61.55	42105048	64.81
2013	1369.66	-29.01	50974627159	-43.81	28967694	-31.20
2014	2146.51	56.72	66560859896	30.58	35761091	23.45
2015	1660.62	-22.64	63773031410	-4.19	30444203	-14.87
2016	1156.98	-30.33	64488456270	1.12	27273685	-10.41
2017	836.27	-27.72	43299661269	-32.86	21895281	-19.72
2018	870.86	4.14	37820155306	-12.65	25011885	14.23

Source: Annual Statistical Report of the Saudi Stock Exchange (Trading) 2018

It was concluded that the market liquidity indicator can be measured using the share turnover rate; to give a clear picture of the availability of purchase and sale orders on most trading days. Hence, the higher the trading rates on stocks are, the more the liquidity will be; as a result, opportunities for investors may be provided for proper investment decisions in securities, that is according to the following equation;

$$\text{Turnover Rate} = (\text{Current Value} / \text{Market Value}) \times 100$$

Table n°4: The Progress of the Turnover Rate of Saudi Stock Exchange during the Period 2008-2018

Year	Value Traded (SAR billion)	Change (%)	Turnover Rate (SAR billion)	Change (%)
2008	1962.94	924.53	212.32	-
2009	1264.01	1195.51	105.72	-50,2
2010	759.18	1325.39	57.28	-45,81
2011	1098.83	1270.84	86.47	50,96
2012	1929.31	1400.34	137.77	59,32
2013	1369.66	1752.86	78.14	-43,28
2014	2146.51	1812.89	118.40	51,52
2015	1660.62	1579.06	105.17	-11,17
2016	1156.98	1681.95	68.79	-34,59
2017	836.27	1689.60	49.50	-28,04
2018	870.86	1858.95	46.81	-50,2

Source: Developed by the researchers based on data from tables (02) and (03)

The above table reveals that the turnover rate recorded the highest percentage in the year 2008 with 212.32%. This is mainly due to the increase in the number of shares traded which reached 61732784307 shares and with 52135929 executed transactions as well as a trading volume that reached SAR 1962.94 billion in the stock market. However, the lowest turnover was 46.81%; in 2018; lower than the previous year by 50.2%. The decrease in turnover is due to the decrease in the trading value which is affected in return by the trading volume.

III. Contribution of Financial Disclosure and Transparency in Enhancing the Saudi Stock Exchange Performance:

III.1- The Nature of Disclosure and Transparency in the Saudi Stock Exchange:

Disclosure and provision of information to investors may be one of the basics that the stock market should adhere to ensure an improved performance. In the Kingdom of Saudi Arabia, the stock market is overseen by the Capital Market Authority (CMA), which was established in 2003 and started functioning in mid-2004. CMA has a vital role in regulating the process of disclosure and imposing it as well as in monitoring companies. It regulates and monitors two types of disclosure:

III -1-1- Initial Disclosure:

The initial disclosure may mean the initial information relative to the company that wants to submit its shares for public subscription to investors in the stock market. According to the securities, registration regulations and listing rules. This information is made available through the bulletin of issue. The initial disclosure includes a sufficient description of the issuer of the securities and the nature of its business, and an adequate account of the securities to be issued in terms of their size, price and rights; in addition to a clear statement on the source's financial position.

III -1-2- Continuing Disclosure :

Continuing Disclosure may mean disclosing data and information that are of interest to stock market customers and that includes disclosing financial reports and annual financial statements; in addition to disclosing substantive developments and proceedings about listed companies that are of interest to investors and by which their securities prices can be affected.

Moreover, any proceedings or developments relative to capital changes and profit distributions are to be disclosed, as well as changes in the statements of the Board, senior executives and their relatives. In its work, the CMA also reviews the annual financial statements of the listed companies to ensure that they meet the disclosure requirements of the market system and its implementing regulations, follow up on the investments of listed companies, and review the listed company's declarations of their financial results.

III-2- Role of Commitment to Disclosure and Transparency in Financial Statements in Enhancing the Saudi Stock Market Performance:

Disclosure in financial statements can be defined as revealing financial information either quantitative or descriptive in financial statements or in margins, notes and supplementary tables, making financial statements truthful and appropriate for its users (El-Nafie, 2006). The following table shows the number of companies that have committed to disclose their annual financial statements in the Saudi Stock Exchange during the period 2008-2018:

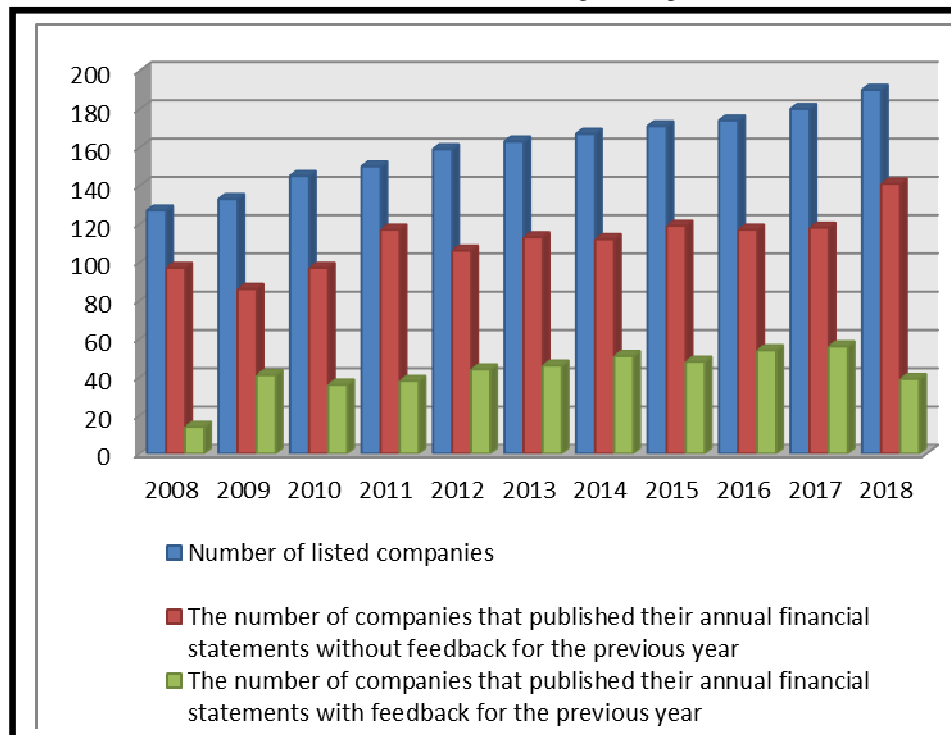
Table n°5: The Progress of the Number of Companies that Committed to Disclose their Financial Statements in the Saudi Stock Exchange during the Period 2008-2018

Year	Number of	The number of companies that	The number of companies that
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	listed companies	published their annual financial statements without feedback for the previous year	published their annual financial statements with feedback for the previous year
2008	127	97	14
2009	133	86	41
2010	145	97	36
2011	150	117	38
2012	159	106	44
2013	163	113	46
2014	167	112	51
2015	171	119	48
2016	174	117	54
2017	180	118	56
2018	190	141	39

Source: CMA Annual Report 2018

Figure n°1: The Progress of the Number of Companies that Committed to Disclose their Financial Statements ... in the Saudi Stock Exchange during the Period 2008-2018



Source: Developed by the researchers based on data from table (05)

As shown in table (05) and figure (01), the number of companies; whose financial statements have been published not including any feedbacks concerning disclosure or transparency in the information and data provided, and over the course of the study, has been more than the number of companies that have published their financial statements and received disclosure and transparency feedbacks on the nature of the information and the data disclosed. This may suggest that the Saudi Stock Exchange has a high level of disclosure and transparency.

As a result, the Saudi Stock Market witnessed a significant development in the number of listed companies; where it reached 127 listed companies in 2008, and of which 86 had published their annual financial statements without receiving any feedbacks on disclosure and transparency, representing 67.71% of the total number of listed companies and corresponding to 41 listed companies that published their annual financial statements and received disclosure and transparency feedbacks.

Furthermore, the Saudi Stock Exchange witnessed a significant progress in the number of companies that had published their annual financial statements and had not received disclosure and transparency feedbacks, with 80.69% of the total number of listed companies in 2010. This high percentage suggests that there is a strong commitment to disclosure and transparency principle in the publication of annual financial statements.

However, the percentage of companies that had published their annual financial statements and received disclosure and transparency feedbacks ranged from 30% of the total listed companies in the years (2011, 2012, 2013 and 2014). Additionally, the percentage of companies that had published their annual financial statements and received disclosure and transparency feedbacks falls to 21.66% of the total listed companies in 2017, reflecting the extent to which the listed companies in the Saudi Stock Exchange commit to the regulations and rules governing the disclosure of annual financial statements and their transparency. Therefore, the performance of the Saudi Stock Exchange was improved in terms of attracting foreign investment and increasing the number of listed companies each year.

III-3-The Impact of Commitment to Disclosure and Transparency on Securities Investments Flow:

As indicated in the table and figure below, the Saudi Stock Exchange has become an attractive market for foreign investment. This is due to creating an appropriate investment climate namely political stability and the legislative frameworks governing the financial market functioning.

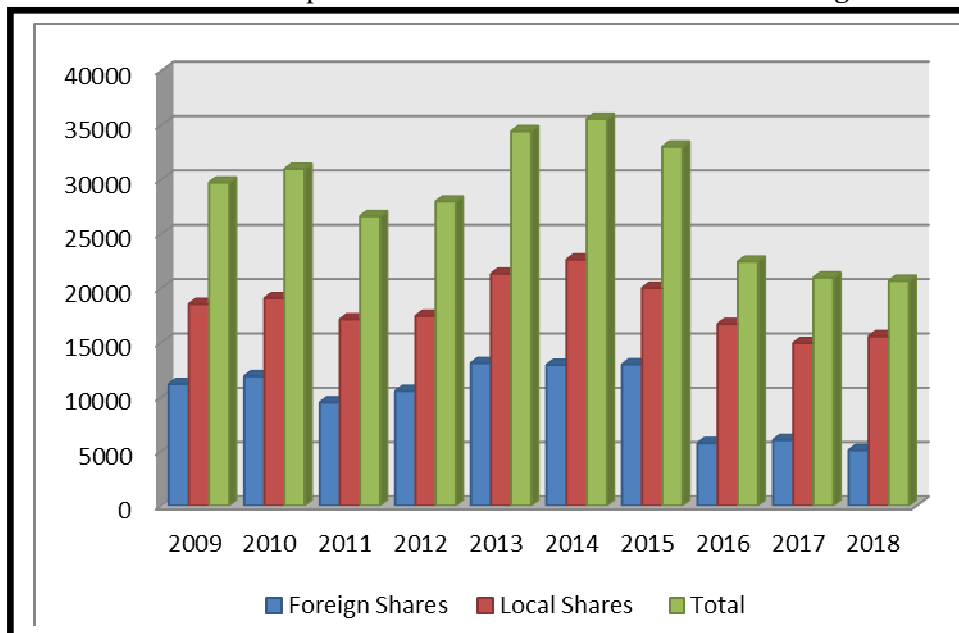
Thus, foreign investors were allowed to trade directly in the stock market. The latter has become highly efficient in view of the high level of disclosure and transparency available in the legislative frameworks governing the Saudi Stock Exchange which has helped to attract local and foreign investment.

Table n°6: The Progress of the Assets Values of Invested Public Offering in the Shares during the Period 2009-2018

Year	Local Shares	Gulf Shares	Arab Shares	Asian Shares	USA Shares	European Shares	Other countries shares	Total
2009	18541.8	1780.4	405.4	1092.8	1072.8	2089.5	4736.3	29719
2010	19074.1	1942.1	246.3	1116.8	1162.2	2211.3	5221.2	30974
2011	17135.1	1519.5	107.1	810.2	1174.6	1845.2	4036.7	26628.4
2012	17445.2	1632.7	185	842.7	1348.2	2191.5	4342.9	27988.2
2013	21331.3	2127.4	196.7	860.6	1763.2	2746	5416	34441.2

2014	22634.1	2342.8	459.5	786.8	2020.1	2662.5	4679.6	35585.4
2015	20024.5	3014.3	306.9	856	2003.6	2747.9	4058.5	33011.7
2016	16703.8	2476.1	189.8	690	668.3	475	1241	22444
2017	14951.1	1941.5	147.3	909.5	842.4	688.4	1499.9	20980.1
2018	15575.4	1616.3	123.6	646	920.3	592.8	1200.9	20675.3

Source: CMA Annual Report 2018. Unit of measure: SAR - Million **Figure**



Source: Developed by the researchers based on data from table (06)

Based on the results from the above table and figure, it can be noticed that the Saudi Stock Exchange is recognizing a significant development in the assets values of invested public offering in foreign shares, which reached 37.60% in 2008 of the total assets values of invested public offering in shares.

In the years that followed, the assets values of invested public offering in foreign shares reached 38% until the year 2015 in which a significant increase in the assets values of invested public offering in foreign shares had been recognized, with a percentage of 39.34% that might be affected by allowing foreign investors to trade in the market starting from the third quarter of the same year.

Yet, the total the assets values of invested public offering in shares declined during the period 2016, 2017 and 2018, both local and foreign; as a consequence of the collapse of oil prices in world markets.

Accordingly, it can be concluded that the assets values of invested public offering in shares in foreign represent a fairly stable percentage of the total the assets values of invested public offering in shares in the Saudi Stock Exchange. This is mainly due to its increased performance levels, especially in setting the disclosure and transparency criteria for the company's initial information that would like to submit its shares for public subscription to

investors in the stock market; and owing to the establishment of legal frameworks to protect investors from unfair practices and achieve justice and transparency in financial transactions and to increase the efficiency and attractiveness of the market

Conclusion:

The results of the current study show that commitment to disclosure and transparency principle has a positive effect on the Saudi Stock Exchange performance. Moreover, the interest in increasing the degree of disclosure and transparency in the listed companies had reinforced local and foreign investors' confidence. Thus, the stock market performance was positively affected, capital was attracted and a new investment environment was created.

Despite the commitment to disclosure and transparency principle and its positive impact on the Saudi Stock Exchange, CMA is faced with significantly increased responsibility to permanently develop disclosure and transparency criteria and improve financial market practices in order to adapt the rapidly developing proceedings in the international stock markets.

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