London
Stock Exchange Group

LSEG Africa Advisory Group

Report of Recommendations

Trends in corporate information dissemination in Africa

AFRICA ADVISORY GROUP
LONDON STOCK EXCHANGE

Our thanks

We extend our thanks to the participating students from the University of Cambridge for their contributions to the research, carried out as part of the Cambridge Judge Business School MBA Students Project, GCP 2018.

Foreword

Welcome to the launch of a series of report recommendations from London Stock Exchange Group (LSEG). They were conceived nearly three years ago with the founding of our LSEG Africa Advisory Group (LAAG), which was designed to provide a platform for regular and collective dialogue through which to develop stronger relations with senior decision-makers, regulators and business leaders across the continent. I'm honoured to have been LAAG's Chairman for the past year and to have seen at first hand its commitment to provide thought leadership on the direction of policy and activity.

Let me start by offering my personal gratitude to its members, who continue to work (on a pro bono basis) to identify ways in which African capital markets could be expanded and enhanced, with our help and support. The work was carried out in conjunction with academic input from Cambridge Judge Business School and the involvement of many other stakeholders in London and across Africa, so this has been a genuinely collaborative effort with one key objective in mind: to create mutually beneficial situations, in partnership with local market infrastructures, by which to increase global investment flows and create deep and sustainable capital markets for Africa.

I believe we all share that same mission and hope that by sharing these recommendations, we offer not only practical advice and constructive solutions, but can also, ultimately, influence policy through shared engagement – with your help.

Three years ago, LAAG started to look at some of the specific challenges (and opportunities) associated with structural and capacity constraints to growth in African markets. Based on prominence and urgency, five key topics and workstreams were shortlisted, and these now form the basis of these papers. In summary, they address capital raising challenges for SMEs, developing the green bond market for infrastructure projects and developing offshore local currency bond markets, as well as focusing on the importance of country market classification and corporate information dissemination.

We should be clear from the outset that, while no effort has been spared to ensure empirical grounding, our research and conclusions are not intended to be either exhaustive or all-inclusive. In many cases, the most appropriate actionable suggestions and policy recommendations are also not new. But we do see value in pulling them together and presenting them in this usable format.

In conclusion, our intention is that these reports should initiate discussion and of course, LSEG remains ready and able to play its role. We look forward to bringing you on board too and we will appreciate all further interest and feedback.

Suneel Bakhshi
Chairman, International Advisory Groups
London Stock Exchange Group

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1. Executive summary

Company news plays a central role in the efficient functioning of financial markets, animating securities and driving trading. Centralised regulatory information services and their distribution platforms are therefore key in disseminating company news to the relevant stakeholders in a timely and efficient manner.

This paper aims to discover how company news is disseminated in Africa, and how this affects price movements in African stock markets. The ultimate objective is to establish a set of recommendations for African regulators and policymakers to support a more efficient regulatory and non-regulatory news dissemination process in their respective countries.

It is based on a study that analysed stock price movements in a sample of companies from four African countries and the way these stocks responded to new information, in order to evaluate the efficiency of these markets in processing this information. The African countries were benchmarked against a developed market (the UK) and an emerging one (India).

The paper identifies the following challenges:

- **Abnormal price movements in African stock markets are exacerbated by ongoing news information asymmetry**[1]
- **The absence of centralised news dissemination services, leading to news capture challenges**
- **Ad-hoc news dissemination methods prevail in the absence of market best practice and robust regulatory guidelines.**

Based on these challenges, the following recommendations have been suggested:

- **Make dissemination of regulatory news through a regulated information service mandatory**
- **Adopt mechanisms for the distribution of corporate regulatory news to a broad set of overseas secondary information providers**
- **Create a national storage mechanism to act as an independent national repository of corporate regulatory news**
- **Develop a national investor relations society focused on creating benchmarks for investor relations best practice.**

1. Information asymmetry refers to a situation where one party in a transaction has more or better information than the other, creating an imbalance of power

2. Introduction

Company news is the lifeblood of financial markets – it animates securities and drives trading. In an efficient market, where information is instantaneously incorporated into stock prices, cumulative abnormal return should increase or decrease on the event date but there should be no further movement after the date, since the information is already incorporated into the price. Regulatory information services therefore play a key role in disseminating company news.

This paper is based on a study in which we documented the number of news events for four listed firms in each of four African countries: Egypt, Kenya, Nigeria and South Africa. Two countries were used as benchmarks for comparison: India and the UK. The aim of the study was to analyse how stock returns respond to new information, and the efficiency of the market in processing that information.

The figures in the study imply that information dissemination is slower in the African countries (including South Africa) than it is in the UK and India, where more formal mechanisms of information dissemination through stock exchanges (a centralised source) are in place. In all the African countries, there was a steady increase in abnormal returns after the event, suggesting that the news gets incorporated in stock prices at a slower rate when investors receive information at different times. The change was much smaller, and relatively insignificant, for India and the UK.

“Regulatory information services play a key role in disseminating company news”

3. Methodology and selection process

The selection criteria for the four representative firms from each of the relevant national stock exchanges were:

— **Large market capitalisation**
— **Mid market capitalisation**
— **High stock liquidity for the preceding six months**
— **Mid stock liquidity for the preceding six months.**

For each country, we carried out a standard event study analysis. Event studies are widely used by empirical researchers in finance and economics to analyse the market reaction to firm-specific and market-wide events using returns around the time when an event occurred. Examples include earnings announcements, mergers and acquisitions, new capital issues and announcements of macroeconomic variables (such as unemployment figures or trade deficits).

In carrying out an event study, the method estimates what the ‘normal’ stock returns of the affected firm(s) should be on the day of the event and several days prior to and after the event (i.e. during the event window), if the firm had not in fact been affected by the news announcement. In this study, the normal, or expected, return was assumed to be the market-wide index: if the firm-specific event had not occurred, each stock would earn a return equal to that of its market index. Thereafter, the method deducts this ‘normal return’ from the ‘actual return’ to compute ‘abnormal returns’ attributed to the event. Finally, it combines abnormal returns to obtain a cumulative abnormal return (CAR). In an efficient market, where information is instantaneously incorporated into stock prices, CARs should increase or decrease on the event date but there should be no further movement after the date (since the information is already incorporated into the price).

“In an efficient market, where information is instantaneously incorporated into stock prices, CARs should increase or decrease on the event date but there should be no further movement after the date”

4. Findings

The results are depicted in the figures below and opposite.

Figure 1 (all firms) shows that there is no pattern of abnormal returns before the event date across all firms, but a large increase after the event.

FIGURE 1

Cumulative abnormal returns by country

(This figure shows overall CARs and CARs by country for the five days before and after the event date)

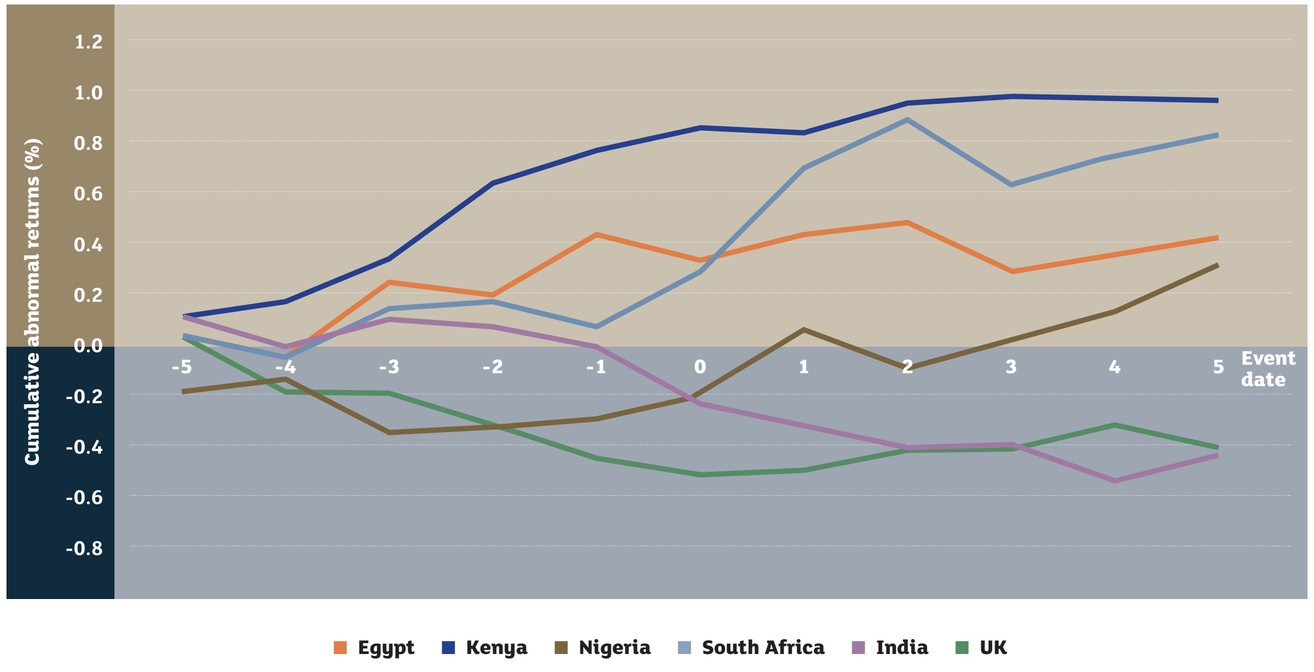
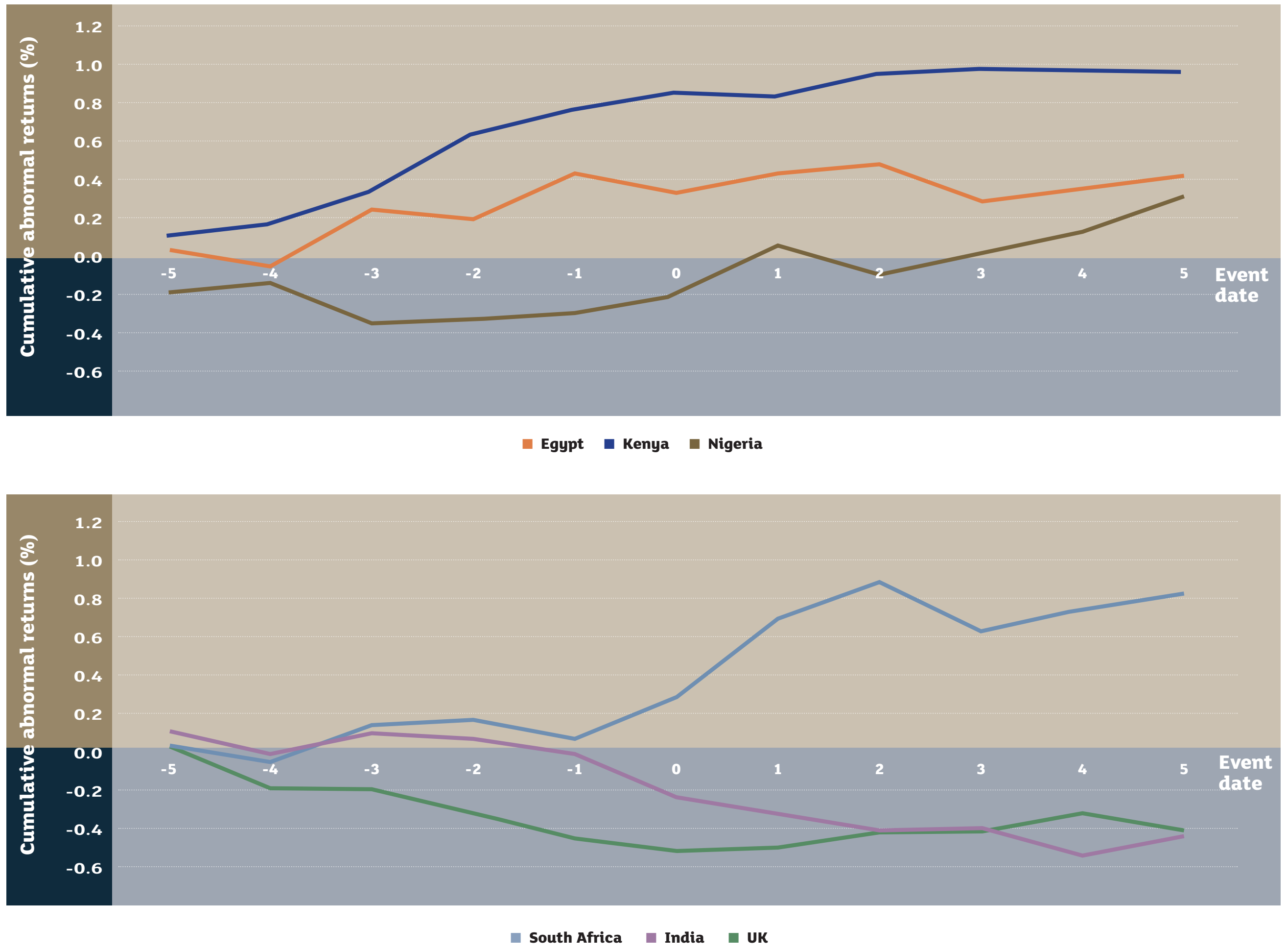


Figure 2, however, shows that the pattern of information diffusion is starkly different across the two groups of countries. The top panel shows that abnormal returns are strongly positive, even after the event date. In contrast, in the bottom panel, the pattern is different for the UK and India in particular, where the magnitude of abnormal returns after the event is much smaller, and even mildly negative.

FIGURE 2

Cumulative abnormal returns by country

(This figure shows overall CARs by country separately for the African and comparison countries for five days before and after the event date)



4. Findings (continued)

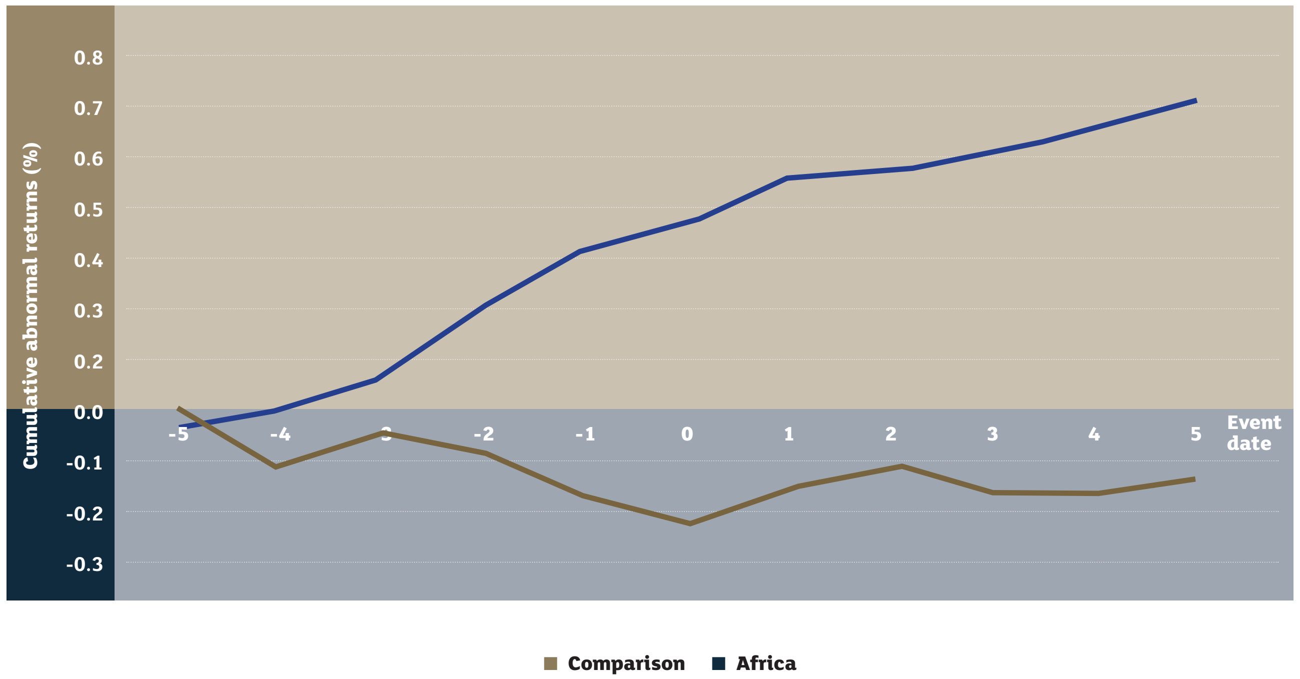
Figure 3 averages the CARs by region (Africa against the comparison countries). The abnormal returns earned by the firms in the comparison countries is largely zero after the event, while in Africa, returns continue to increase steadily after the event day.

Overall, these three sets of data imply that information dissemination is slower in the African countries (including South Africa) for the chosen sample companies than it is in UK and India. In all of the African countries, there is a steady increase in abnormal returns after the event. The change is much smaller for India and the UK.

FIGURE 3

(This figure shows average CARs by area for the African and comparison countries for the five days before and after the event date)

Cumulative excess returns – Africa vs comparison countries



5. Challenges

5.1. Abnormal price movements in African stock markets are exacerbated by ongoing news information asymmetry
Information asymmetry refers to decisions in transactions where one party has more or better information than the other. In Africa, this asymmetry creates an imbalance of power in transactions that can sometimes cause the transactions to go awry, or, in the worst cases, lead to market failure. As this study shows, the prevalence of CARs suggests that, in Africa, parties might receive corporate news at different times. There are many factors that support this theory, including the advent of social media channels and the multiple media platforms where companies are now communicating with customers and shareholders. Whatever the factors behind the asymmetry, a market that does not absorb and reflect news efficiently will deter investors of all types over the medium and long term.

5.2. The absence of a centralised news dissemination service leads to news capture challenges
The mode of dissemination for corporate news in the study has been largely through company websites and electronic and print media rather than through a centralised news dissemination service. The exception is South Africa's Johannesburg Stock Exchange (JSE), which provides corporate news as a mandated subscription service for JSE listed companies and advisors.

News aggregators such as Bloomberg and Thomson Reuters, where news information was sourced for the study in the absence of a centralised provider, appear to carry African news mostly at a macroeconomic level. Corporate news capture is limited. The existence of multiple news sources across African markets dilutes the ability and appetite of the news aggregators to collect corporate news, and selection bias in news outlets may lead to some non-regulatory news not being captured. The result is that less African corporate news is distributed beyond local market participants who know where to find it.

5.3. Ad-hoc news dissemination methods prevail in the absence of market best practice and robust regulatory guidelines
When the US Securities and Exchange Commission introduced Regulation Fair Disclosure in 2000, a number of core market best practices were adopted to ensure that market participants received price-sensitive regulatory news in a consistent and timely manner. In the US, webcasting was first used for results presentations and analyst briefings to ensure the widest possible audience had simultaneous access to new company data. In the absence of a mandatory specific regulation on how news information is made public, consistency is required in African markets around best practice methods for news dissemination.

"The prevalence of CARs suggests that, in Africa, parties might receive corporate news at different times"

6. Recommendations

This paper seeks to form a basis to make recommendations for improving the process of corporate news dissemination in Africa. With a deeper understanding of the factors that exacerbate information asymmetry in Africa, it is possible to propose a series of measures to correct this asymmetry.

There is a need for appropriate policy proposals aimed at improving the effectiveness of regulatory and non-regulatory news dissemination and countering the effects of information asymmetry across Africa.

6.1. Mandatory dissemination of regulatory news through a recognised regulatory information service

Through an appropriate market consultation and a legislation process, African regulators could consider making centralised news dissemination mandatory. A domestic regulatory information service could be offered by the stock exchanges or other institutions with relevant capacity and competences. Regulation would ensure consistency of the source and timing of the information going to the market and remove the negative effects of information asymmetry.

Infrastructure costs for developing a centralised system, including an information repository, can be a limiting constraint for African exchanges. Without an enabling regulatory environment, market participants may question the value of making such investments, despite knowledge of the long-term benefits to the market.
One way to reduce this cost could be for African exchanges to adopt an outsourced news dissemination solution provided by an external vendor. This could be developed over time into a proprietary domestic market infrastructure under a knowledge transfer programme with the external provider. The platform would be funded by the listed companies as part of their annual regulatory filings costs.

6.2. Adopt mechanisms for distribution of corporate news to a broad set of overseas secondary information providers

News aggregators such as Dow Jones, Bloomberg and Thomson Reuters play a vital role in ensuring that corporate news reaches the global investment community. A centralised news dissemination service would provide an effective single source for these news agencies to relay corporate news to international investors.

Regulators could invite overseas news agencies to become official 'overseas secondary information providers', a role that would recognise the agency's international news distribution and news management credentials.

"A domestic regulatory information service could be offered by the stock exchanges or other institutions with relevant capacity and competences"

6.3. Create a national storage mechanism to act as an independent national repository of corporate regulatory news

The national storage mechanism is an essential medium for storing regulated information, as required under relevant national transparency directives. It can contain:

- **All corporate regulatory news**
- **Prospectuses and offer documentation**
- **Base corporate financial news that can assist in the formation of a domestic company registry or augment an existing one.**

6.4. Develop a national investor relations society focused on creating benchmarks for investor relations best practice

Investor relations (IR) is the communication of information and insight between a company and the investment community. This process enables a full appreciation of corporate business activities, strategy and prospects and allows the market to make an informed judgement about the fair value and appropriate ownership of a company.

An IR society's role in an African country could be to help promote best practice in investor relations; to support the professional development of IR practitioners; to represent their views to regulatory bodies, the investment community and government; and to act as a forum for issuers and the investment community.

In addition, as an industry body, the IR society should be:

- **Working for better communication between management, investors and employees**
- **Improving the techniques of IR**
- **Encouraging high ethical and professional standards in IR**
- **Providing a forum for members to exchange their views and share experiences and to broaden the understanding of IR matters**
- **Encouraging, providing and assisting research into IR matters**
- **Establishing courses in, and publishing position papers and guidance notes on, IR issues**
- **Representing the views of its membership to government and other regulatory bodies, and to relevant associations of professional practitioners.**

"Regulators could invite overseas news agencies to become official 'overseas secondary information providers'"

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