

**INVESTOR PROTECTION AND TRANSPARENCY: PRACTICAL EXPERIENCE OF THE LUXEMBOURG STOCK EXCHANGE****Good transparency practices are fundamental for improved investor protection and market efficiency.**

In the preamble of the EU directive 2004/109/EC (the Transparency Directive) it is stated that “*the disclosure of accurate, comprehensive and timely information about security issuers builds sustained investor confidence and allows an informed assessment of their business performance and assets*”.

In times of market turbulence such as we see now, this need for disclosure of information to investors becomes even more pressing. Additionally, in a period when Luxembourg as a financial centre is attacked from many angles because, among other reasons, of its perceived lack of transparency, it is important to remember that the Luxembourg is fully regulated in accordance with EU regulations and, in particular, its stock exchange has for many years encouraged greater transparency.

As a pillar of the Luxembourg financial centre, the Luxembourg Stock Exchange, which has been in operation since May 1929, is strongly committed to greater transparency as regards its listed securities. This article discusses some of the steps that the Exchange has carried out to enhance this transparency.

The Luxembourg Stock Exchange is one of Europe's main exchanges for the listing of securities. Indeed in terms of international bonds listed it is the leading stock exchange in Europe with more than 32,000 fixed-income securities. It also lists some 8,000 investment funds and around 7,500 warrants. Because of the large number of securities listed by the Exchange, and the resulting multitude of day-to-day financial and regulatory data arising from these securities, the Luxembourg Stock Exchange is well-placed to be an important force for improving transparency.

**Transposition of the Transparency Directive**

The Transparency Directive 2004/109/EC of December 15, 2004 on the harmonisation of transparency requirements was transposed into Luxembourg law by the Law of January 11, 2008 on the transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

The purpose of the Transparency Directive, which is part of the Financial Services Action Plan, is to impose a transparency and information level adapted to the objectives of investor protection and market efficiency. Issuers whose transferable securities are traded on a regulated market and are within the competence of the Luxembourg supervisor, the *Commission de Surveillance du Secteur Financier (CSSF)* are subject to certain obligations to provide information under the *Law of January 11, 2008*.

Issuers which fall within the scope of application of this Law are obliged to provide periodic and ongoing information, described as “regulated information”. In particular, regulated information includes periodic financial reports, information to be provided with regard to major holdings and privileged (inside) information.

In addition to the drafting and preparation of documents relating to regulated information, *the Law requires issuers:*

- to publish regulated information;
- to provide that information to an officially appointed mechanism for the central storage of regulated information (OAM); and
- to file the regulated information with the CSSF.

On the same day as the publication of this Law, *the Grand-ducal regulation of 11 January 2008* on transparency requirements for issuers of securities entered in force. This provided additional technical explanations to the provisions of the transparency law.

On February 6, 2008, the CSSF published CSSF Circular 08/337 relating to the entry into force of the Law and the Grand Ducal Regulation and presenting more detailed information on the conduct to be adopted in order to fulfil the three above obligations.

*The Grand Ducal Regulation dated July 3, 2008* relating to the official appointment of mechanisms for the central storage of regulated information *conferred upon the Luxembourg Stock Exchange the status of OAM*.

CSSF Circular 08/359 was published on June 27, 2008 and specified the quality standards which the Luxembourg Stock Exchange must implement in order to perform its task as an OAM.

The Stock Exchange's new OAM service became fully operational from January 1, 2009 and thus the Luxembourg Stock Exchange is in a position to provide issuers or their representatives with a service enabling them to file and disseminate documents containing regulated information. These documents are accessible to the public on the Stock Exchange's website.

**Transparency via Data Products and Services**

Besides the recently-introduced OAM service, the Luxembourg Stock Exchange provides additional information on its listed securities via other products and services. In effect, the Luxembourg Stock Exchange has, for many years, focused on extending the delivery of information to a broader audience through intelligent use of technology.

This is done through two main channels: firstly through products for dissemination of bulk data to the major data agencies and secondly through its website.

Concerning the website, this allows investors access to data and documents related to listed securities, including real-time dissemination of pricing and best orders data, as well as a service for fixed income continuous trading, with the active contribution of market makers. The service displays the bid and ask prices for fixed income securities.

*An RSS (Really Simple Syndication) facility was launched in February 2008*. Via this facility, investors and other interested parties may have immediate access to notices and price-sensitive information disseminated by issuers. Available feeds are: the latest press releases made public by issuers using the Exchange's financial

news services, the latest notices issued by the Exchange, the latest listings, delistings, trading suspensions and market transfers. In this context, the Luxembourg Stock Exchange also introduced in 2008 an improved "Financial News Service" in order for issuers to publish and disseminate notices and press releases and, in particular, price-sensitive information that must be published rapidly.

Finally, *Finesti*, the Exchange's wholly owned subsidiary, shares the same vision concerning transparency. This company is specialized in data and documents related to investment funds and publishes and disseminates information related to all funds domiciled in Luxembourg.

Finesti has begun to expand the range of its data to investment funds domiciled in other European countries. In this regard, it is active in two important projects of EFAMA, the European Fund and Asset Management Association. It is the mandated joint classification administrative for the European Fund Classification (EFC).

The EFC aims to create a pan-European classification of investment funds, which will ensure transparent comparisons of cross-border funds and increased investor protection. Finesti is also active in rollout of European Fund Processing Passports. Both projects rely heavily on delivery to the end users of the information via its website.

Transparency and web technology complement each other very well and the development of information services is expected to continue as the technology and the demand for information grow.

### A Partnership with INVESTAS

The Luxembourg Stock Exchange is a partner of *INVESTAS*, the Luxembourg association of minority shareholders. It has maintained close links with this association since the signing of a cooperation agreement in July 2001.

INVESTAS focuses on minority shareholder protection and transparency in capital markets. It also works to enhance shareholder value in companies and supports corporate governance issues.

### The Ten Principles of Corporate Governance

Following the adoption of the Action Plan of the European Commission in 2003, the Luxembourg Stock Exchange elaborated ten corporate governance principles applicable to Luxembourg companies whose shares are listed on the exchange.

These principles were developed in conjunction with the management of the major listed companies, while taking note of the corporate governance schemes implemented in neighbouring countries, the reflections

of the European Commission and OECD standards. This was followed by a public consultation process.

The Ten corporate governance principles cover the role and composition of the boards of directors of companies, as well as committees which may emanate from the boards, such as audit, remuneration and nominating committees, and the companies' senior management. They also deal with the relations to be maintained with shareholders and investors. In practice the corporate governance principles are based on a number of recommendations and guidelines laid down for the proper implementation and application of the principles.

### European Code of Conduct for Clearing and Settlement

The Organisations represented by the Federation of European Securities Exchanges (FESE), the European Association of Central Counterparty Clearing Houses (EACH) and the European Central Securities Depositories Association (ECSDA) agreed on 7th November 2006 on a Code of Conduct for Clearing and Settlement (the Code).

The Luxembourg Stock Exchange shares the objective of achieving greater efficiency and further integration of European capital markets. The objective of the Code – in line with the objectives of the European Commission – is therefore to allow investors to trade European securities within a consistent, coherent and cost-efficient European framework.

Since the signature of the Code, the Luxembourg Stock Exchange has extended the scope of application of the Code to all securities admitted to trading on the two markets operated by the Luxembourg Stock Exchange. This approach is particularly relevant for the activities of the Luxembourg Stock Exchange, as the number of listed securities other than cash equities is specifically important. This voluntary self-commitment confirms *the contribution of the Luxembourg Stock Exchange (i) to a successful implementation of the Code and (ii) to transparency and the respect of best practices in order to ensure a level playing field across all market providers.*

**As a conclusion**, the Luxembourg Stock Exchange has been working for years to improve investor protection and transparency, but this is an ongoing process and the Luxembourg Stock Exchange will always stay in the driving seat concerning these matters.

**Yes, we can and shall do everything in order to reach these ambitious aims.**

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