Wired up for the Transparency Directive

By Adrian Holliday
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Life wasn't exactly fair for many European investors and shareholders up until January 2007. Since then the EU Transparency Directive has been tasked with forcing all EU states to ensure shareholder information is disclosed immediately, whether an investor lives in Stockholm or Siena. It's all part of the effort to create a single European capital market.

Such rapid-fire disclosure could not be finessed efficiently without the services of Europe's wire services, however. So how have the likes of Dow Jones, Business Wire, Marketwire, PR Newswire and Hugin coped since the January 2007 threshold? Have EU companies found it easy to differentiate between the different spread of services and tools available? Just how effective have the newswires become at disseminating shareholder information needed by investors? And how far down the track are individual European countries with implementing this directive?

Deputy CEO of Hugin, Olivier Mégean, says Hugin has been preparing for the changeover for several years. 'It's important to understand the leverage of the directive on our business,' he says. 'We had to organize distribution channels to fulfill the new requirements, not just through various portals like MSN, Yahoo! and Bloomberg but also to the regulator and stock exchange. Then we could go to listed companies and offer them the solution. At the end of 2006 we had 200 listed companies as clients, but since September 2007 we have 700.'

The chief advantage offered by pan-European electronic shareholder data is that smaller and mid-sized companies are able to publicize their information as quickly as a major UK or French blue-chip heavyweight, thanks to the internet.

Rocking the boat

Not all countries are fully compliant, however; indeed, some are quite a distance from full compliance. This is a fact that surprises Mégean, given the advance warning EU member states had of the directive. 'Full implementation isn't expected until the end of 2008, but we've been talking about it for many years,' he says.

Much of the Transparency Directive was modeled on UK best practice, a fact not lost on Simon Wilkinson from the London Stock Exchange's regulatory news service. 'It's a reflection of the fact that the UK was further along on the right track already,' he says. More broadly, though, Wilkinson says UK investors are now well served with many distribution points. 'That's the vision for the rest of Europe,' he adds.

Ah, the rest of Europe. Darin Wolter, sales vice president at Marketwire, believes there are around 10 countries that are some distance from implementing the directive thoroughly. 'Most others have already fully implemented it or have implemented at least some of it,' he explains. 'But you always have early adopters and those who trail the market. When you look at movements like the adoption of XBRL, what you see are classic patterns of supply and demand where marketplaces make decisions to move aggressively – or not.'

Mark Hynes, managing director of IR at PR Newswire, points out that from a vendor's point of view, the directive emphatically demands simultaneous disclosure for all. 'You can interpret that in a variety of ways,' he says. 'Some say that as long as you disclose to some wires, like Bloomberg and Reuters, you have complied. The problem is that if you're a retail investor in Austria, by definition, you may not be able to afford a Reuters or Bloomberg terminal. We've put together a circuit of major news portals so that all the info is disseminated to institutional platforms, newspapers and investor websites.'

Mind your language

Other issues clouding the directive's progress since its January inception include the problem of language disclosure. Material news should be disseminated in a widely recognized language, but which one?

'We always publish the full release in English on a pan-European basis for no additional charge,' says Michael Becker, vice president of global disclosure and financial reporting services at Business Wire. 'Interestingly, the Swedish regulator called for all pan-European news to be in Swedish. Then there are French clients, who believe French is a widely recognized language, so they have requested that. Neither one of them is incorrect, of course; it's just a matter of different interpretations.'

Again, a distinctly multi-flavored European approach is taken to the official central storage mechanisms – all ultimately linked to each other – that the directive requires. At least one officially appointed body in each country is supposed to ensure equality of access for all regulated information.

'The few regulators that are creating central storage mechanisms are all using different technologies,' says one insider involved in the technical background to the directive. 'The regulators have not come up with a common standard so, although you may have central storage mechanisms in place, they all work to different specs.'

Another insider says that while some countries – France, Germany and the UK, for example – have worked hard to ensure technically robust platforms, others 'haven't spent enough time checking the true ability of a wire to distribute information efficiently on a pan-European basis. Are all wires meeting the same distribution points? Some are much better equipped than others.'

How are companies themselves managing to discriminate successfully with the range of services now on offer to them? That depends, says one newswire player: 'In some EU member states where there's a lot of competition and the issuers are astute, sophisticated and multi-jurisdictional, they're quick to pick up on the advantages of one player versus another.'

Close, but no cigar

Not surprisingly, business has increased for most newswire services – yet a major improvement in investor transparency still eludes them, admits Dow Jones spokesman Shannon Sullivan. 'I haven't noticed a major increase in transparency within earnings reports, as the directive was intended to provoke,' she says. 'The move to report more frequent disclosure of major shareholdings has been helpful for editorial, however, particularly in M&A situations because we can more easily see large stakes changing hands and who's buying and selling. It has also made the debt securities market more transparent because of increased disclosure in this area.'

Another newswire insider feels the situation is far more bleak, however. Unless the EU is determined to improve the effectiveness of the directive across a range of different fronts, he argues, Europe 'will continue to have a largely fragmented system, with more inefficiencies and artificial barriers to entry. This completely undermines everything the directive originally set out to achieve.'

The International Capital Market Association (ICMA) is well aware of the directive's current shortfalls and – at least so far – its thoroughly fragmented and tangled implementation.

In a recent letter to the Committee of European Securities Regulators, the ICMA's Ondrej Petr made it clear that progress was being held up by a general lack of clarity and direction. 'The problems are particularly acute in the case of the major shareholding notification regime where internationally active investors need… systems ensuring simultaneous compliance with all the applicable regimes and timely and accurate reporting to the issuers and competent authorities,' he wrote.

Like any large, awkward lump of European legislation, this directive needs time to bed in and for the sharp edges to be smoothed off. Some states, meanwhile, have elections to fight, not to mention other directives to implement.

'Member states are always late implementing directives,' says Petr. 'It's not just this directive. The huge Markets in Financial Instruments Directive came into force recently, and many are still struggling with that. This is something that will take time.'