



Developing Equity Culture and Partnerships in the Investment Market: a Study on Iran's over the Counter Market

Mehdi SALEHI

Ferdowsi University of Mashhad, Iran
mahdi_salehi54@yahoo.com

Mohammad DONYAYEE

Sistan and Baluchestan University, Iran

Abstract

The equity culture has an effective role in developing investment market and represents economic development. In the current study, polling and questionnaire method was used to determine the approach of organizational stockholders and exchange stockbrokers to over the counter market (OTC) role in developing partnerships and equity culture in the investment market of Iran. The results demonstrate that the statistical population deems the transparency of Iran's OTC market favorable and that the OTC market has acceptable trading expenses for investors and company's involvement. Also, in addition to adequate supporting and educational facilities in Iran's OTC market, there is the potential for innovation and diversity in trading opportunities for investors and individuals and reduces investor's risks for investment and involvement in the investment market. Also there is no significant dereference between the approaches of organizational shareholders and exchange stockbrokers with regards to the discussed variables.

Keywords: Partnership, Equity Culture, Over the Counter Market, Iran

Introduction

A characteristics of developing countries is distribution and chaos of savings and investments, so that collecting and conducting individual's cash and participating them in investment are carried out through investment market process, economic development methods, controlling society's liquidity, developing investment market and public domain and causes the liquidity of the public to be directed into production; thus solving the issues caused by wondering capitals in the society (Salehi, 2008). In other words, establishing culture of equity and investment is an index for economic development and required for development of investment market in any country which will improve the process of investment formation and removes the gap between savings and investment (Madura, 2006; Salehi, 2009).

On December 16 2009, Iran's Parliament approved the Law to expand the type of activities in the capital markets. The Law has essentially three objectives: firstly to develop new financial instruments, secondly to develop new f In addition to previously

introduced security instruments (such as Sukuk (Islamic bond), mortgage-backed securities and certificates of deposit), the Law introduced an 'investment certificate'. This instrument is defined under the Law as:

'A uniform security issued by an investment fund in return for investment in that fund bearing the particulars of the investor, the fund and the amount of the investment.'

Under the Law, the legal personality of investment funds was recognized for the first time. An investment funds is defined as:

'A financial institute investing financial resources acquired from the issuance of Investment Certificates in approved areas.'

By virtue of such legal personality, investment funds are now able to open bank accounts and to obtain facilities in their own name.

The minimum capital requirement for the creation of such an investment fund is currently IR5 billion (roughly \$500,000). The Capital Markets Regulation was approved by the Council of Ministries on April 18- 2010 and removed several restrictions on foreign investment in the stock exchange. Most notably, the requirement for foreign investors in the stock exchange to obtain an investment license under the Foreign Investment Protection and Promotion Act 2002 (FIPPA) was removed.

As a result, the only requirement on such foreign investors is now to obtain a transaction authorization from the Securities and Exchange Organization (SEO). Foreign investors however continue to be able to apply for investment protection under FIPPA if they choose to do so.

In addition to foreign nationals, the Capital Markets Regulation considers Iranian nationals with foreign sourced capital as foreign investors, providing the opportunity for such persons to apply for a transaction authorization and benefit from the provisions of the said regulations.

The Capital Markets Regulation further divides foreign investors into the two categories of non-strategic and strategic investors and set limits on the level of investment of non-strategic investors. Those limitations are as follows:

- 10% of the stocks of a company listed in the stock exchange or OTC market by any one such investor; and
- 20% of all stock listed in the stock exchange and OTC markets by all such investors.

A strategic foreign investor is defined as:

'An investor having more than 10% of the stock of a company listed in the stock exchange or OTC market, or after acquiring the stocks becomes a member of the board of directors of that company.'

Strategic investors must observe a two-year lock up period. Any sales of stocks within this lock up period require the authorization of the SEO. No such limitation will apply to non-strategic investors.

Further, investors who have been granted a transaction authorization are able to open bank accounts in foreign or local currency as well as to transfer foreign currency into Iran and repatriate funds abroad subject to currency regulations.

Of interest is that the necessity of developing investment market for active participation of persons (whether natural or legal) in the principles of country's economy and attracting the wandering liquidities of the society, requires markets and diverse & effective financial tools along with developing equity and investment culture, promoting public knowledge and familiarizing society with this market. In league with diverse financial markets, over the counter markets are a new phenomenon introduced in and along with stock exchange and have found a place for themselves in the center of financial systems in the recent decades (Babus, 2010). The requirements of economic, social and cultural economic plan of Iran which requires investment market and developing public investment and also the new investors with diverse tastes and expectations from the investment market, Iran's over the counter market was established.

Equity culture means entrance of investors to the investment market and investing their liquidity in the stock exchange in order to benefit from profits and increase in stocks prices and also participation in financing companies and projects (Osei, 1998; Salehi and Biglar, 2009) and takes effect from factors such as risk appetite and individuals awareness, market transparency, creditability and reliance to market and investor's supporting mechanism, organizational stockholders and shared investing funds (Hennessy, 2007; Namazi and Salehi, 2010), transaction costs (citation), market liquiditability (European Commission, 2005), individual's access to market, rate of transaction and information technology (citation). In this article the participation of individuals and development of equity culture in the investment market of Iran with emphasis on the over the counter market is studied. So, the current study aims to investigate the overall strength in a developing country like Iran.

Theoretical Basis and Literature Review

The term "equity culture" was first proposed in the beginning of 1990s in USA (Okamoto, 2010) and represents the amount of investment and direct public participation in the risks of investment market (Haliassos and Hassapis, 2002); in other words, equity culture is trying to solve the challenge of individual's liquidity through investment in stocks and participation in the profits of risk bearing capital (Bilias et al., 2008). Development of person's participation in the investment market brings about important structural changes in an economy. When most of the peoples in the society are shareholders, not only economic mechanisms are affected, but also the political processes (Guiso et al., 2003).

In recent years newborn markets have focused on the effect of equity culture in the development of investment market and supporting the decision of the investors, because developed equity culture in addition to respecting the interest of investors in the society and supporting them through favorable development of investment market, helps financing newly established firms (European Commission, 2002). Also countries with strong equity culture enjoy transparent reporting (McGovern and Candemir, 2006) and promising investments. In general it can be said that developing equity culture in courtiers will result in larger and more developed investment markets (Gusio and Jappeli, 2004) and new facilities for investment in risky new business (Geisler and Einwiller, 2001). Also of the major reasons behind failures in markets can be contributed to lack of equity culture and investment in equity (European Commission, 2007). In addition that extending equity culture and supporting investors can resulting in

enjoying surplus capitals and encouraging investors participations in investment markets (citation) counts various factors affect equity culture, such as integrity, improved market's monitoring structure, improved shareholder supporting mechanisms and enhancing legal requirements. Also the European commission (2005) counts the large equity markets with favorable liquidability, establishment of consulting companies and appropriate communication between investors and stocks analyst as effective factors in extending equity culture. Studies performed by this commission in 2002 also shows the risk appetite factors of personal and organizational stockholders, developed and liquidable markets, low intermediate expenses and efficiency and transparency in equity market affect development of individuals participation and equity culture. In addition that Hennessy (2007) deems development of mutual investment funds and risk aversion of individuals affective in development of individual's participation in the investment market. Firewald et al. (2010) also counts ignorance of investors especially retail investors of investment markets as a factor in lack appreciation for participation and reduction of market's quality.

Considering the patterns of participation in the countries, the participation of individuals in investment markets is where the costs are lower. In other words, when the expenses decrease, the participation increases. These expenses not only include transaction fees, but also the information of investors in risk assessment and stocks interest (Guiso et al. 2003). Scholars have carried out studies about transaction fees in over the counter markets. Babus (2010) states that transaction in the over the counter markets requires expenses that are less evident and this is because of sensitivities such as obligation risk of the parties in the market. Findings of Green et al. (2010) indicates that high expenses of over the counter market are caused by searching expenses and lack of price transparency. Also Huang and Stoll (1997) compare executive prices of NASDAQ stocks market and USA stocks exchange to conclude that transaction fees in NASDAQ is more than USA stocks exchange.

Gusio et al. (2003) studied about developing equity culture state that the procedure of information disclosure and investor's accessibility to information (information and transaction transparency) must also be favorable so that investors can access information and processes. Also Guvenen (2002) indicates that accessibility of a large subset of population to financial tools and markets facilitates the establishment of various portfolios as per tastes and interests. Therefore more attempt to invest in investment markets; while lack of homogeneity and equality in access to equity market can be a valid reason for lack of reception for investment market. Among performed studies about transactional transparency and access of individuals to investment market, Duffie et al. (2010) conclude that increase in market transparency for public will result in improved efficiency of risk transfer and facilitates conditions for investors. Bisin and Acharya (2010) show in their analyses that over the counter markets are not transparent and are ambiguous and this will result in deficiency of the market and increasing in the risk of investors participation, in a way that investors will attempt to participate and deal according to the amount of accessibility to details of informant on each transaction and positional analysis. Osei (1999) also states that transparency of transaction will cause trust, reliability and increase in the transaction in the investment market and its subsequent development. Also Hruska and Laux (1999) conclude their findings that information disclosure mechanisms in the over the counter market are less than the stocks exchange market and the legal requirement are minimum. Hendershott and

Moulton (2009) also study the rate of transaction and quality in the stocks market in the USA stocks market and count the transaction rate as of the important aspects in competition in stocks market and between its participants.

Research's Objective

This main objective of this study was to investigate the role of Iran's over the counter market as a complementary market for Tehran's stocks market in developing the individual's participation and developing equity culture in Iran. Considering the effect of transparency, expenses, supporting and education mechanism, transaction innovation and investment risks on equity culture and investment in investment market, the following minor objectives are implied:

1. Studying transaction transparency in Iran's over the counter market
2. Studying transaction fees in Iran's over the counter market
3. Studying the supporting and education mechanisms in the Iran's over the counter market to encourage individuals to participate in the investment market
4. Studying the role of Iran's over the counter market in reducing the investment risk of investors in the investment market

Research Question and Hypothesis

Iran considered as a developing country, which there are some weakness in capital market. So existence of over the counter market may lead some improvement to Iranian capital market. In this regard considering the research objectives and the background, the research questions include:

1. Does Iran's over the counter market have favorable transactional transparency?
2. Are expenses of Iran's over the counter market favorable for investors and companies?
3. Does the Iran's over the counter market have adequate supporting and educational mechanisms for participation of individuals in the investment market?
4. Does the Iran's over the counter market have the capability of innovation and diversity in transaction opportunity for investors and persons?
5. Does the over the counter market in Iran reduce the risk of investor in the investment market?
6. There is a significant difference between the approaches of organizational stock holders and over the counter market stockbrokers in relation to presented variables?

Research Method

The statistical population of the study includes all organizational stockholders and Iran's over the counter market stockjobbers and their lists is take from the Iran over the counter market website (www.irfarabourse.com) and the questionnaires was distributed between stockbrokers and over the counter stockholders and 84 of the 90 questionnaires were returned and analyzed. The statistical properties of the population are presented in Table 1.

Table 1. Descriptive Properties of Study's Statistical Population

Variable	Item	Frequency	Percentage
Activity	Only OTC market	16	19.00
	OTC & SE market	68	81.00
Academic Field	Accounting	22	26.20
	Financial Management	49	58.33
	Economics	6	7.20
	Other	7	8.30
Education	Bachelor's	36	42.90
	Master's	37	44.00
	Doctorate's	8	9.50
	Other	3	3.60

The questionnaire is response based and was designed by Likert's-five scale. To determine the validity, 8 of the questionnaires was sent to professors and experts and after receiving feedbacks, the validity of its contents and appearance was confirmed. Also to confirm reliability, the questionnaires was distributed between 19 of the statistical population and after analysis of responses, the Cronbach's alpha coefficient was calculated 0.87 and therefore the reliability was also confirmed. To quantify the ranking scale of the questionnaire to distance scale, Table 2 was implemented.

Table 2. Ranking Scale to Distance Scale Conversion

Completely Disagree	Disagree	Don't Know	Agree	Completely Agree
1	2	3	4	5

Data Analysis

To answer the questions, normality test was carried out to specify the normality or abnormality of the data to determine the test type (parametric or non-parametric) in Table 3.

Table 3. Results of (citation) test for normality distribution of data

Variable	D.f	Statistic	Sig.
Transaction Transparency	83	0.188	0.001
Transaction Fees	83	0.190	0.001
Supporting & Education Mechanisms	84	0.146	0.001
Innovations and Diversity in Transaction Opportunity	84	0.198	0.001
Risk	84	0.181	0.001

As evident in Table 3, considering that the significant level for the data of the five variables is less than 0.05, the normality of the data hypothesis is rejected. Therefore the Wilcoxon non-parametric single sample tests were used by Minitab software.

To answer the questions the null hypothesis and the presented substitute and tests results are as follows:

$$H_0: \mu \leq 3$$

$$H_1: \mu > 3$$

Table 4. The results of Wilcoxon single sample test for the proposed questions

Variable	Statistic	Mean	Number	Sig.
Transaction Transparency in Iran's OTC	2854.50	3.36	84	0.001
Transaction Fee in Iran's OTC	3009.50	3.33	83	0.001
Supporting & Education Mechanisms in Iran's OTC	2076.50	3.13	84	0.025
Innovations and Diversity in Transaction Opportunity in Iran's OTC	2064.50	3.33	84	0.001
Reducing Investor's Risk in Iran's OTC	1734.50	3.20	84	0.004

The results of Table 4 implies that the significance level of marked ranking test of Wilcoxon to investigate the null hypothesis for the proposed questions, $m=3$ opposite $m>3$ for question no. 1 (transaction transparency in Iran's OTC) and question no. 2 (transaction fee in Iran's OTC) is 0.001 and for question no. 3 (Supporting & Education Mechanisms in Iran's OTC) is 0.025 and for question no. 4 (Innovations and Diversity in Transaction Opportunity in Iran's OTC) is 0.001 and for question no. 5 (Reducing Investor's Risk in Iran's OTC) is 0.004, and all are smaller than 0.05 and therefore the null hypothesis is rejected and the opposing hypothesis is confirmed. Therefore the answer to the five questions is positive, meaning that from the viewpoint of the statistical population:

1. Iran's OTC market has favorable transactional transparency.
2. Iran's transactional fees are favorable for participation of investors and companies.
3. Iran's OTC market has adequate supportive and educational mechanisms for participation of individuals in the investment market.
4. Iran's OTC market has the capability to introduce innovation and diversity in transaction opportunities for investors and individuals.
5. Iran's OTC market reduces the risk of investors in the investment market.

Considering that statistical population's approach to the proposed questions and variables is positive, in order to investigate the approaches of groups within the statistical population separately, the difference between their views were evaluated. Considering that these data are not normally distributed, therefore to evaluate the difference of approaches between statistical groups (organizational stockholders and stockbrokers) non-parametric tests of Mann-Whitney was used by SPSS software.

To investigate the difference between approaches of groups within statistical population, the following null and substitute hypothesis is presented:

$H_0: \mu_{\text{organizational stockholders}} = \mu_{\text{Stockbrokers}}$

$H_1: \mu_{\text{organizational stockholders}} \neq \mu_{\text{Stockbrokers}}$

Table 5. Results of Mann-Whitney test for the proposed hypotheses

Variable	Statistic	Mean	Number	Groups	Sig.
Transaction Transparency in Iran's OTC	613.50	39.39	22	Organizational stockholders	0.482
		43.60	62	Stockbrokers	
Transaction Fee in Iran's OTC	548.00	47.59	22	Organizational stockholders	0.200
		39.98	62	Stockbrokers	
Supporting & Education Mechanisms in Iran's OTC	653.00	43.80	22	Organizational stockholders	0.770
		42.04	62	Stockbrokers	
Innovations and Diversity in Transaction Opportunity in Iran's OTC	518.00	35.05	22	Organizational stockholders	0.092
		45.15	62	Stockbrokers	
Reducing Investor's Risk in Iran's OTC	680.50	42.57	22	Organizational stockholders	0.988
		42.48	62	Stockbrokers	

The results of Table 5 show that the significant level of Mann-Whitney test to investigate the null hypothesis for difference between approaches of statistical groups for Transaction Transparency in Iran's OTC is 0.482, Transaction Fee in Iran's OTC 0.200, Supporting & Education Mechanisms in Iran's OTC 0.770, Innovations and Diversity in Transaction Opportunity in Iran's OTC 0.092 and Reducing Investor's Risk in Iran's OTC is 0.988, all are greater than 0.05. therefore the null hypothesis is accepted and the opposing hypothesis is rejected and it is concluded that there is no difference between the views of the groups within the statistical population about the mentioned variable, in other words there is no significant difference between the approaches of organizational stockholders and stockbrokers about the favorable transaction transparency in Iran's OTC, favorable transaction fees in Iran's OTC, adequate supporting & education mechanisms in Iran's OTC, capability for innovations and diversity in transaction opportunity in Iran's OTC and reducing investor's risk in Iran's OTC.

Conclusion

Iran OTC market (or Fara Bourse) is a securities market which operates under official supervision of SEO. Therefore, this market is considered an organized market which is supervised by a regulatory body. Nevertheless, the Iran OTC Market operates as self-regulatory organization similar to organized Exchanges active in Iran. The market was established in 2009 and trades officially started in four market segments on September 28, 2009. The OTC Market has been formed to promote the issuance and trade of various financial instruments and remove the existing gap that inhibits the financing of industrial firms via the securities market.

Extending equity culture is among the factors of development of investment funds and represents economic development. Countries with strong equity culture have promising investments, transparent financial reports and successful and efficient markets. Also extending equity culture provides new opportunities for investors to invest in new businesses and to help financing new firms. Therefore to investigate the participation of persons and extension of equity culture in Iran's investment market with emphasis on over the counter market, the approaches of investors and stockbrokers of Iran's OTC market was analyzed.

The findings state that from the viewpoint of organizational shareholders and stockbrokers, Iran's OTC market has favorable transactional transparency with suitable transactional fees for participation of individuals and companies. Also there are adequate supporting and educational mechanisms and the capacity for presenting innovations and diversity in transactional opportunities. Also there is no significant difference between the approaches of different groups within the statistical populations about the discussed variables. In general it can be said that from their point of view, Iran's OTC market can play an effective role in developing participation of individuals and extension of equity culture in the investment market, because as the findings from the questions suggest, Iran's OTC market has favorable potentials and capabilities.

References

- Acharya. Viral & Bisin. Alberto (2010) Centralized versus Over-The-Counter Markets, NBER working paper, No.15915
- Babus, Ana. (2010). Strategic Relationships in Over-the-Counter Markets, discussion paper, University of Cambridge.
- Bilias, Yannis, Georgarakos, Dimitris and Haliassos, Michael. (2008). Equity Culture and the Distribution of Wealth, Network for Studies on Pensions, Aging and Retirement (NETSPAR) Discussion Paper, No. 2008 – 010.
- Duffie. Darrell, Li. Ada & Lubke. Theo (2010) Policy Perspectives on OTC Derivatives Market Infrastructure, Federal Reserve Bank of New York Staff Reports, no. 424
- European Commission. (2002). Benchmarking Business Angels, Enterprise Directorate General, Final Report
- European Commission. (2005). Best Practices of Public Support for Early-Stage Equity Finance, Final Report of the Expert Group, Directorate-General for Enterprise and Industry.
- European Commission. (2007). Communication from the Commission to the Council, The European Parliament, The European Economic and Social Committee and the Committee of the Regions: Removing Obstacles to Cross-Border Investments by Venture Capital Funds, Brussels, 21.12.2007.
- Friewald, Nils, Rainer Jankowitsch, and MartiSubrahmanyam. (2010). Illiquidity or credit deterioration: a study of liquidity in the US corporate bond market during financial crises, Working Paper Series, New York university, stern school of business, department of finance.
- Geissler, Ulrike and Einwiller, Sabine. (2001). A Typology of Entrepreneurial Communicators: Findings From an Empirical Study in e-Business, International Journal On Media Management, Vol. 3, Pp 154-160
- Green, Richard C., Li, Dan & Schurhoff, Norman. (2010). Price Discovery in Illiquid Markets: Do Financial Asset Prices Rise Faster Than They Fall?, Journal of Finance, 65(5), 1669–1702.
- Guiso, Luigi and Jappelli, Tullio. (2004). Awareness and Stock Market Participation, Centre For Studies In Economics And Finance (CSEF), University of Salerno, Italy, Working Paper, No. 110
- Guiso, Luigi, Haliassos, Michael and Jappelli, Tullio. (2003). Equity Culture: Theory and Cross-Country Evidence, Economic Policy, Printed In Great Britain, Pp. 123–170
- Guvenen, F. (2002). Reconciling Conflicting Evidence on the Elasticity of Inter-temporal Substitution: A Macroeconomic Perspective, Rochester University, Mimeo
- Hacimahmutoglu, Sibel. (2007). The problems of minority protection and their solutions within the legal framework in Turkish corporate governance, Journal of Banking Regulation, Vol. 8, No. 2, pp. 131-158

- Haliassos, Michael and Hassapis, Christis. (2002). Equity Culture and Household Behavior, 54 Oxford econ. Papers 719.
- Hendershott, Terrence & Moulton, Pamela C. (2009) Speed and Stock Market Quality: The NYSE's Hybrid
- Hennessy, Alexandra. (2007). The Role of Agenda Control in the Creation of a Single Market for Pension Funds, In: UNSPECIFIED, Montreal, Canada. (Unpublished)
- Hruska. Sharon Brown & Laux. Paul A. (1999) Complementary Markets, George Mason University
- Huang, R. D. & Stoll, H. R. (1997). The components of the bid-ask spread: A general approach. *The Review of Financial Studies*, 10, 995-1034.
- Madura, Jeff. (2006). *Financial Markets and Institutions*, Thomson/South-Western, 7th edition
- McGovern, Mark and Candemir, Nurcan. (2006). Agents, Institutions and Regions in Transition, 46th Congress of the European Regional Science Association, 30 August 30-3 September 2006, Greece, Volos
- Nofsinger, John R. & Varma, Abhishek (2009) Wise Pound and Penny Foolish? OTC Stock Investor Demographics and Portfolios, Washington State University
- Okamoto, Karl S. (2010). A Law and Personal Finance: View of Legal Origins Theory, *Brigham Young University Law Review*, Desktop Publishing Example.
- Osei. Kofi A.(1998) Analysis of factors affecting the development of an emerging capital market: The case of the Ghana stock market, AERC Research Paper No. 76.
- Salehi Mahdi (2008). The Role of Financial Intermediaries in Capital Market, *Zagreb International Review of Economic and Business*, Vol. 6, No.1. May, pp. 97-109.
- Salehi Mahdi (2009). Tobin's Q Model and Cash Flows from Operating and Investing Activities Evaluating in Listed Companies in Iran, *Zagreb International Review of Economic and Business*, Vol. 7, No. 2, pp. 71-82.
- Salehi Mahdi, and Kumars Biglar (2009). Study of the Relationship between Capital Structure Measures and Performance: Evidence from Iran, *International Journal of Business and Management*, Vol. 4, No. 1, pp. 97-103.
- Namazi Mohammad, and Mahdi Salehi (2010). The Role of Inflation in Financial Repression: Evidence of Iran. *World Applied Sciences Journal*, Vol. 11, No. 6, pp. 653-661.