

Research Article

REGULATORY FRAMEWORK OF PRE AND POST TRADING TRANSPARENCY IN THE TEHRAN STOCK EXCHANGE

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ABSTRACT

Information in securities markets plays central role. The issue of market transparency refers to the clarity with which market participants (and the public at large) can perceive the process of securities trading. In addition to helping investors make better decisions, transparency increases confidence in the fairness of the markets. Thus, regulators should aim to ensure that markets are fair, efficient and transparent and investors are given fair access to market information. In this study, we categorize portions of rules and regulations that were relevant to market transparency and after defining the association between the main categories; we present a regulatory framework for pre-post trading transparency. The main categories of regulatory framework are the dissemination of pre and post transactions information, prohibition of inside information abuse, prohibition of market manipulation, recording, maintenance and reporting documents and information by financial institutions, exchanges and self-regulatory organization, trader's information about procedures and regulation of stocks trading and violations and punishments. We explain the effects of these categories on the market transparency and conclude that the regulatory framework can be used by researchers and SEO for future researches and weaknesses amendment.

Keywords: *Pre-trade Transparency, Post-trade Transparency, Market Transparency, Financial Information, Financial Rules and Regulations, Regulatory Framework*

INTRODUCTION

Information in securities markets plays a central role (Sabatini and Tarola, 2002). Investors in stock market need different types of information: macroeconomic variables, pre and post-trading information and information about industry and companies. Disclosure of reliable and timely information about transactions and companies enables investors to make investment decisions based on all of the available information that would be material to their decisions (Fung, 2014). In this study, we focus on the pre and post trading transparency (market transparency).

Market transparency is generally believed to be a key mechanism that reduces the information asymmetry among market participants thereby guaranteeing market efficiency (Bleck and Liu, 2007). At first, we explain pre and post trade transparency.

In financial markets, transparency usually means transaction transparency, that is, the degree to which information regarding prices and volumes of financial transactions is made publicly available. Transaction transparency in turn takes two forms. One is pre-trade transparency, which refers to the reporting of information on prospective trading interest or limit order books. The other is post-trade transparency, which refers to the reporting of prices and volumes of completed transactions. In the market microstructure literature, transparent markets are those that offer pre- or post-trade transparency of some sort; opaque markets are those that do not (Mengle, 2009).

Also the issue of market transparency refers to the clarity with which market participants (and the public at large) can perceive the process of securities trading. All else remaining equal, a market becomes more transparent with prompt and comprehensive disclosure of the terms of actual transactions and quotes or orders which represent potential transactions (2). In other words, it refers to the degree to which real-time dissemination of information about orders and trades is made publicly available. Clearly the benefits of

Research Article

transparency are informational because individuals can make better economic decisions if they know how much their assets are worth. In some respects, a perfectly transparent market resembles the economist’s notion of a perfectly competitive market where knowledge is equally available and dispersed to all market participants (Sabatini and Tarola, 2002).

In addition to helping investors make better decisions, transparency increases confidence in the fairness of the markets. Thus, regulators should aim to ensure that markets are fair, efficient and transparent and investors are given fair access to market information (Fung, 2014).

This study contributes to the existing literature by examining the pre and post trading transparency rules and regulations in The Islamic Republic of Iran. In Iran, due to capital markets development and the need for new regulation, the new Securities Market Act was passed in 2005. The Act, which is more comprehensive and advanced than the previous one has been passed to protect investors' rights and aimed at organizing, preserving and developing a transparent, fair and effective market. Under the new Act, the Securities & Exchange High Council (Council) and the Securities and Exchange Organization (SEO) were introduced and created as regulators of Iranian capital market; The SEO will be responsible for administration and supervisory duties, governed by the Board of Directors. Structure of Iranian Capital Market is shown below:

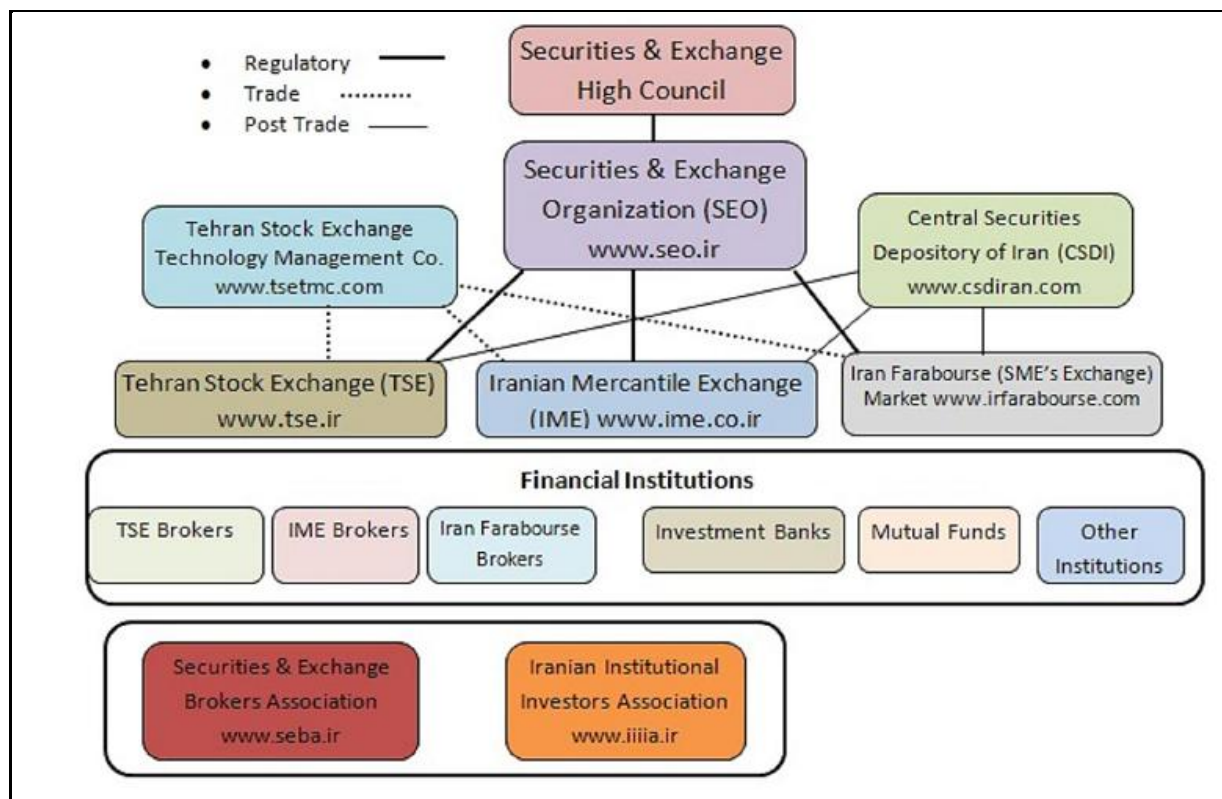


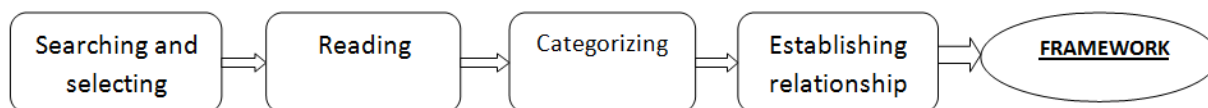
Figure 1: Iranian Capital Market structure

Also under the new Act, Tehran Stock Exchange (TSE) has been demutualized i.e. the membership organization entity was turned into a public joint stock company. The TSE is Iran's largest stock exchange. TSE has two markets, the main market and the secondary market. The main market has two Boards, the main board and the secondary board. Ordinary shares are listed in only one of the boards in the first market or in the secondary market. TSE, which is a founding member of the Federation of Euro-Asian Stock Exchanges, has been one of the world's best performing stock exchanges in the years 2002 through 2013. In this study, we try to extract a regulatory framework for pre and post trading transparency governing in the Tehran Stock Exchange.

Research Article

Research Approach

In the first stage, we searched capital market rules and regulations to select relevant rules and regulation so in this study the existing relevant rules and regulations is considered as the phenomenon under study. In the next stage we read those rules and regulations in order to find portions that were relevant to pre and post trading transparency. In the third stage, we categorized those relevant portions; Categorizing refers to identifying the portions that are grouped under a particular heading, based on the attributes of each portions (Carlile and Christensen, 2005). Finally, relationships were defined. In this step, we defined the association between the main categories, resulting in the study's output: the regulatory framework of pre and post trading transparency.



After searching, we found out that the capital market rules and regulations about pre and post trading transparency include:

- Securities Market Act of The Islamic Republic of Iran (Securities Market Act)
- The Law for Development of New Financial Instruments and Institutions Based on overall policies of principle 44 of the Constitution (The Law for Development of New Financial Instruments)
- Regulations on Disclosure of Information by The Companies Registered with the Organization (Regulations on Disclosure of Information)
- The Disciplinary Regulations Governing The Brokers
- The Executive Regulations Governing the Online Trading System on the Tehran Stock Exchange and on the Iran Farabourse
- Regulations Governing the Dissemination of Information on Transactions by Tehran Stock Exchange Company (a public joint-stock entity)
- The Executive Regulations Governing the Procedures of Securities Transactions on Tehran stock exchange
- The Enforcement Regulations Governing the Reporting Procedures by Insiders
- Transactions Bylaw for the Tehran Stock Exchange Company
- Regulation of recording, maintenance and reporting documents and information by persons under supervision

After reading these rules and regulations, we extracted the portions that were relevant to pre and post trading transparency and then we categorized those relevant portions as follow:

Main and Subsidiaries Categories of the Regulatory Framework

The Dissemination of Pre and Post Transactions Information

According to article 31 of Securities Market Act, the exchange shall have to prepare the list, number and price of securities traded on business days as per the standards approved by the Organization and shall be publicly announced. Such list shall be deemed as an official instrument and filed in the exchange archives.

Also according to article 25 of Transactions Bylaw for the Tehran Stock Exchange Company, "The Exchange" shall have to duly provide the market with required information including the opening price and closing price, index and size of free floating shares for market analysis and execution of fair transactions based on offers and bids.

In applying the article 31 of the Securities Market Act, the Regulations Governing the Dissemination of information on Transactions by Tehran Stock Exchange Company were approved on June 27, 2009 by the board of directors of the SEO. In this regulation, dissemination means to make the transactions data publicly known.

Chapter two of this regulation states issues to be disseminated. According to Article 2, those sections of transactions data which are required to be disseminated by the Exchange shall include:

Research Article

The information which must be provided with a breakdown of securities and issuer including:

1. the list of securities names and symbols, latest symbol status (halted, suspended, open) by stating the reasons for halt or suspension as well as the status in markets and on symbols;
2. Trading date or period — trading session;
3. The price including the opening, lowest, highest, average and closing'
4. The transactions volume and value;
5. Closing price changes compared to the closing price of the previous day in rials and in percentage;
6. Number of transactions frequency;
7. Number of buyers and sellers with a breakdown of natural persons and legal entities;
8. The transactions volume and value with a breakdown by retail, block and bulk deals;
9. The transactions volume and value with a breakdown by natural and legal buyers and sellers;
10. The transactions volume and value with a breakdown of different markets of trading systems including ordinary and block;
11. The name and size of the shares of legal shareholders over one percent of the issuer.

The cumulative information on the entire system of the Exchange markets and industries including:

1. Indices as per the relevant rules and the information relating to the effect of each symbol on the total index;
2. Volume, value ad number of transactions frequency;
3. The number of listed securities and the number of traded securities with a breakdown of securities type including shares, rights of preemption, musharaka sukuk and other listed securities;
4. The number of buyers and sellers with a breakdown of natural persons and legal entities;
5. The transactions executed with a breakdown of block, bulk and retail as well as a breakdown of natural and legal buyers and sellers.

Other Issues

1. The information relating to reopening of the trading symbols such as the reopening time and the reason for halting at least 15 minutes prior to reopening;
2. The notice of initial securities offering as per the rules in force;
3. Any change in the categorization of industry or the market and the trading board of symbol at least one day prior to the exercise;
4. Any change in the base volume and price limit of ordinary (common) shares at least two business days prior to the exercise;
5. Any change in the starting time, closing time, and/or during the course of the official trading session at least 15 days prior to the exercise;
6. The halting of trading symbol owing to the convention of the shareholders' general meetings of companies the holding of a board meeting which shall have to decide on the powers delegated by the extraordinary general meeting in respect of the capital increase and/or the maturity for interim payment (on account) of dividends or maturities of certificates and similar instruments, prior to the start of official trading session whereby at the end of such session the symbol shall be halted for the said reasons;
7. The notice of shares bulk offering as per the relevant rules;
8. The information relating to foreign investment in accordance with the prevailing rules;
9. The records of halting and reopening of symbols including the date and time of halting the date and time of reopening for at least a year ago;
10. The history of symbols applicability in the trading nexus for at least a year ago.

Dissemination of the Price and Cumulative Volume of the Best Three Purchase and Sale Orders

According to Article 3 of this regulation, Dissemination of the detailed information relating to the entering orders in the trading system shall not be allowed and merely the disseminating of the price and

Research Article

cumulative volume of the best three purchase and sale orders entered in the trading system shall be allowed with a breakdown of the trading symbols.

Scheduling and Dissemination Procedures

According to article 4 of this regulation, The information referred to in paragraphs (a) and (b) of article 2 of these rules shall be released at the prescribed times as follows:

1. Daily information by the closing hours of the same day at the latest;
2. Weekly information by the end of the last weekly trading day at the latest;
3. Monthly information by the end of the last monthly trading day at the latest;

Of course, according to note 1 of this article, Dissemination of the information as per these rules shall also be possible during the intervals of shorter periods and intraday activity.

According article 5, the information disseminated by the Exchange shall be deemed as an official document and the Exchange shall be held liable for the **accuracy and inaccuracy** of the information so published.

In article 6, in order to ensure the simultaneous, fair and equitable accessibility of the general public to the information on transactions, the Exchange shall have to publish such information on its official website on the internet within the periods specified in these rules. Also according to article 7 of this regulation, The Exchange shall have to make the records of the disseminated information on transactions available to the public on its official website after the date of their publication.

Also according to article 12, in the case that the Exchange takes action to correct the already-published information as per these rules, it shall have to explain the reason or reasons in the footnote of the corrected information which is so disseminated.

Prohibition of inside Information Abuse

According to article 1 of Securities Market Act, **Inside Information** means any type of undisclosed information to the public which is, directly or indirectly, related to the securities, transactions and the issuer thereof and in the case of securities issuance, it shall affect the price and/or the investors' decisions for trading in the related securities.

Punishment of inside Information Abuse

According to article 46 of this Act, The following persons shall be sentenced to (discretionary) imprisonment from three months to one year or to cash penalty being equal to two or five times of the profit gain or the non-incurred loss or to both punishments:

1. Any person who, prior to the public offering, takes advantage of the inside information relating to the securities subject of this law being available to him ex-officio which may, in one way or another, be served against the interests of other parties or be served in his own interest or in favor of the persons from whom he is represented under any designation or causes such information to be disclosed or released in the circumstances not permissible;
2. Any person who trades in securities by using the inside information.

Reports of Insiders' Transactions

According of note 2 of this article, The insiders shall, within 15 days after the conduct of transactions, have to report that portion of their securities trading which is not based on the inside information to the Organization and the Exchange.

In applying this note, "the enforcement regulations governing the reporting procedures by insiders" were approved on Jan. 1, 2008 by the SEO's board of directors. According to this regulation, the "reporting person" is required to complete his particulars as an insider and send it to the Securities and Exchange Organization and the Tehran Stock Exchange.

Also the "reporting person" is required to present information about his/her transactions, any change in securities ownership and/or change in his relationship with the securities issuer. According to article 6 of this regulation, the company shall have to report the list of reporting persons to the Securities and Exchange Organization and the Tehran Stock Exchange Company. According to article 2 of this regulation, the reporting persons who are considered to have inside information about the issuer listed on the Exchange include:

Research Article

- a) The company directors including board members, executive board, managing director and their deputies;
- b) Inspectors, advisors (consultants), auditors and attorneys/ lawyers of the company;
- c) The shareholders who severally or/and jointly with their dependents own more than ten (10%) percent of the company shares or their representatives;
- d) The managing director and board members and the directors concerned or the representatives of the parent (holding) companies who own at least ten percent of shares or have at least one member sitting on the board of directors of the investee company;
- e) Other persons who have access to the inside information by virtue of their functions, powers and/or privileged positions. The Securities and Exchange Organization shall have the authority to designate the persons subjected to this paragraph.

Avoiding Executing the Orders by Brokers

According to article 101 of The Executive Regulations Governing the Procedures of Securities Transactions on Tehran stock exchange, if execution of customers' orders causes transactions based on inside information, broker shall avoid executing the orders and report the matters to the SEO and TSE.

Halting of the Trading Symbol by TSE

According to article 18 of this regulation, if the security trading is suspected of using inside information, TSE directly or pursuant to announcement of SEO can halt the trading symbol.

Canceling Transactions

According to article 29 of this regulation, if TSE confirms transactions, they will be firm and final. According to article 31 of this regulation, if the security trading is suspected of using inside information, TSE can refuse (not confirm) deals with unusual price fluctuations or Abnormal volume.

Prohibition of Market Manipulation

United States Securities Exchange Commission has defined manipulation as follow: intentional and pre-planned behavior in order to control or to influence artificially to market of special security by investors. Market manipulation generally refers to activities that may somehow interfere with the functioning of the free market supply and demand and activists mock demonstration and create a false prices for stock market, and finally lead to mislead market participants.

One of the most important distortions in stock prices can be done by manipulation and if investors come to believe that the stock price does not reflect the true value of the stock they will lose their confidence to the market. There are three types of manipulation:

Manipulation based on information: This strategy is the manipulations of stock prices by spreading false rumors and misleading information. People who invest in securities are sensitive to market risk. Investors impression by information and rumors is shown in price volatilities and trades volumes. So, there would be incentive for forgers to publish misleading information and guide public opinion toward their illegitimate interests.

Examples of this kind of transaction is manipulating coalition, that investors creating a coalition buy securities ,then release rumors about company so they can sell their shares with higher prices and gain profit.

Manipulation based on practice: Activities instead of transactions which affect real or realized value of trading assets and change it .In this kind of manipulation managers are known as manipulators and their function impress prices, like shutting down a factory to influence the price. But since managers have limited gaining a position buying or selling their companies in many countries, this Type of manipulation has rarely occurs.

Transaction-based on transaction manipulation: In this type of manipulation, doing transactions among themselves (with the purchase and sale of securities) creates a vision of an active market and by artificial increase in prices and trading volume will attract other investors to buy shares. One of the factors that affect investors' decision is the volume of transactions, liquidity which can be considered the most important feature. It is evident that if the liquidity power increases it can add to attractiveness of a share to investors. In such circumstances, forgers can manipulate the trading

Research Article

activity of the stock market by offering a false display and mislead investors and encourage them to buy their shares and they will sell their shares at higher prices (Moazeni and Asadollahi, 2013).

Punishment of Market Manipulation

According to article 46 of Securities Market Act, any person whose actions will typically result in a deceptive appearance of the securities transactions trend or will create false prices or lure persons into securities trading, shall be sentenced to (discretionary) imprisonment from three months to one year or to cash penalty being equal to two or five times of the profit gained or the non-incurred loss or to both punishments.

Prohibition of Rotational Transactions

According to Article 16 of Transactions Bylaw for the Tehran Stock Exchange Company, The brokers shall have to refrain from conducting rotational transactions. If, by a negligent omission, they transact such deals and thereafter realize the nature of their business, they shall have to report the case forthwith to the Exchange managing director. "Rotational Deals" mean the transactions in which, upon completion of a business cycle in a trading session, the ownership status of trading parties shall not change.

Providing Sufficient Information in the Event of Spreading a Rumor or Publishing a False Report and/or Forged Documents

According to article 14 of regulations on disclosure of information by the companies registered with the organization, In the event of spreading a rumor or publishing a report which contains false or misleading information and/or forged documents, the issuer shall, immediately provide the Organization with sufficient information and explanations regarding such rumor or report and disclose the matter to the general public.

Avoiding Executing the Orders by Brokers

According to article 101 of The Executive Regulations Governing the Procedures of Securities Transactions on Tehran stock exchange, if execution of customers' orders causes market manipulation, broker shall avoid executing the orders and report the matters to the SEO and TSE.

Halting of the Trading Symbol by TSE

According to article 18 of this regulation, if the security trading is suspected of price manipulation, TSE directly or pursuant to announcement of SEO can halt the trading symbol.

Canceling Transactions

According to article 29 of this regulation, if TSE confirms transactions, they will be firm and final. According to article 31 of this regulation, if the security trading is suspected of price manipulation, TSE can cancel (not confirm) deals with unusual price fluctuations or Abnormal volume.

Recording, Maintenance and Reporting Documents and Information by Financial Institutions, Exchanges and Self-regulatory Organization

Regulation of recording, maintenance and reporting documents and information by persons under supervision, were approved by the SEO. This regulation determines documents and information that persons under supervision shall record, maintenance in order to SEO can monitor and reconstruction transactions. This regulation determines documents and information that persons under supervision shall report to SEO periodically or occasionally. Also, this regulation determines how to inspect persons under supervision.

Recording, Maintenance and Reporting Information by Persons under Supervision

According to article 3 of this regulation, persons under supervision shall record, maintenance and report different documents and information. We mention issues that concern transparency of stock trading:

1. Recording the following information about each of the customer's orders to the persons under supervision for buying or selling or issuance or cancellation of securities:

- Characteristics of order provider
- Date and time of receipt of order
- Sequence number of order
- Order type
- Condition that customer has considered for order execution

Research Article

- Characteristics of securities that has provided buying or selling order of them
 - Characteristics of order beneficiary
 - Actions that has done for orders
 - volume and price for order
 - All correspondence related to the order.
2. Recording the following information about the order modifications (including cancellation or other modifications) that customer have provided to persons under supervision:
- Date and time of order modification receipt
 - Characteristics of the relevant order
 - details about the amendments made to order
 - modification provider
 - All correspondence related to the order modification.
3. Recording the following information about each transaction of persons under supervision:
- Date and time of the transaction
 - Number of securities traded
 - transaction price
 - All funds and commercial documents that were exchanged in connection with the transaction,
 - Transaction type
 - Transaction place
 - All correspondence related to the transaction

Keeping Ownership Records of Securities by Central Securities Depository of Iran (CSDI)

According to article 4 of this regulation, CSDI shall keep ownership records of securities and any subsequent changes as follow:

1. Characteristics of securities owner
2. All transfers and type, date, time and number of transferred securities
3. Full Characteristics of transferor and transferee
4. Pledging and custody of securities and their removal
5. Devotion (*vaghf*), peace (*solh*) and the gift (*heba*) of securities
6. Changes in assets resulting from capital changes

Keeping Records of Transactions by Exchanges

According to article 5 of this regulation, exchanges shall keep records of transactions as follow:

- A) Records relating to the transactions, the parties, the price, date, time, and confirmation or cancellation of transactions
- B) Records relating to the executive and monitoring actions about halting and re-opening of trading symbol, changes of price limit and base volume, the basic unit of order and time, price and volume limits.

Traders shall Inform about Procedures and Regulation of Stocks Trading

It is necessary for pre-trade transparency that traders inform about trading procedures, trading system, regulations and punishments. According to article 7 of The Executive Regulations Governing the Online Trading System on the Tehran Stock Exchange, The member shall be allowed to provide the online trading services to the client when the client meets the qualifications set forth below:

- 1- The required knowledge about the orders entry processing through the online trading infrastructure;
 - 2- The required skill for securities trading;
 - 3- The required knowledge about the laws and regulations associated with securities trading;
 - 4- Lack of prohibition on transactions as imposed by the SEO or other competent authorities;
- Also according to note 2 of this article, in order to ensure the adequacy of the client's knowledge about the online trading, the member shall have to establish continuous training processes so as to update his/its knowledge by personal attendance or electronically.

Research Article

Violations and Punishments

Violations of Tehran Stock Exchange in pre and post Trade Information Publication

According to article 11 of Regulations Governing the Dissemination of Information on Transactions by Tehran Stock Exchange Company, The breach of the provisions, inter alia, the following items shall be deemed to be violations and the Organization board of directors shall investigate any such cases in accordance with the prevailing rules:

1. Delay in publishing information;
2. Non-publication of information;
3. Publication of incomplete information;
4. Publication of false information;
5. Publication of information which the Exchange shall not be authorized to disseminate as per the rules.

Violations of Recording, Maintenance and Reporting Documents and Information by Persons under Supervision

Article 12 of recording, maintenance and reporting documents and information by persons under supervision regulation explains implementation guarantees of this regulation and if violation is found, investigator reference proportionally will consider one or more punishments.

Inside Information Abuse

According to article 46 of Securities Market Act, any person who abuses inside information, shall be sentenced to (discretionary) imprisonment from three months to one year or to cash penalty being equal to two or five times of the profit gain or the non-incurred loss or to both punishments.

Market Manipulation

According to article 46 of Securities Market Act, any person whose actions will typically result in a deceptive appearance of the securities transactions trend or will create false prices or lure persons into securities trading, shall be sentenced to (discretionary) imprisonment from three months to one year or to cash penalty being equal to two or five times of the profit gained or the non-incurred loss or to both punishments.

Violations of Brokers

According to article 6 of The Disciplinary Regulations Governing the Brokers, non-fulfillment of the rules relating to the admission of customers and their identification process and non-adherence to the rules concerning the entry and keeping records of the customers' orders and accounts entail giving a written caution to the broker and entering it in the related records. Also according to article 7 of this regulation, some violations which shall entail prohibition of the broker from carrying out transactions for a maximum period of sixty business days shall include:

- Sorting of orders on a large scale and incommensurate with the market supply and demand (offer and bid) or sorting of orders without any orders or based on the undocumented orders which will result in the unreal trend of the supply and demand;
- Entry of purchase or sale orders aimed at implying boom and deletion of the orders entered after entry of the broker's other orders and execution of deals on the other side by one or several brokers in a concerted effort;
- Sorting of orders on a large scale in the lower sections of purchase and sale lines in order to make long lines to attract interests for one's own or for others towards specific purposes like inclusion in the rules for elimination of transactional bottlenecks and/or activity by the counterparty and ...;
- Entry of purchase or sale orders higher or lower than the current market purchase or sale quotes in order to create a rising or declining trend in securities price to benefit from the price so created for one's own interest or for others;
- Disruption in the pricing trend of securities or commodity by carrying out transactions with low volumes and at unreasonable prices and/or by conduct of orchestrated transactions and/or by executing transactions in a varying market circumstance;
- Instigation of the offering or bidding party on one hand and completion of all or a part of the underlying volume by selling or buying securities on the other hand by one or several broker(s);

Research Article

- Conduct of transactions without change in final ownership to achieve the goals like creation of false prices or implying boom or recession in the market;
- Entering an order being valid for one day or more than one day after the trading session or its deletion by the broker on the following day aimed at implying boom or recession;
- Publishing news or rumors in the market verbally, in writing or electronically (via internet, SMS and the like) and creation of a positive or negative environment so as to abuse it for selling or buying securities or commodity by the broker;
- Launch of false and coordinated competition between the various branches of one or several broker(s) which will lead to increase or decrease in the securities or commodity prices;
- The use of undisclosed information influencing the shares price (such as adjusting the EPS forecast, bulk offering of shares, start of market-making, profit gained by a particular company through shares trading, decision to buy a considerable volume of shares by a broker or a particular company for portfolio) for one's own benefit or for others;
- Release of undisclosed information of a particular issuer in a manner not provided for in the rules;
- Conduct of fake transactions as opposed to the common and faire market practices so as to evade the market regulatory restrictions ;
- Use of any means, tools or unauthorized possibilities, whether software or hardware, which will lead to the elimination of sound and fair competition among brokers;
- Misuse of the trading code, information, documents and evidence relating to the transactions or customers' fund for one's own benefit or others';
- Failure to supply information and evidence requested by the Exchange or the SEO, in particular, in the course of inspection,
- Manipulation/fraud in the brokerage books and accounts such as entry of unaccomplished transactions, elimination of the accomplished transactions and entry of offsetting without permission;
- Production of false or forged documents to the SEO or to the Exchange or use of such documents in transactions;
- Having an effective role in shaping one of the criminal acts in chapter six of the Securities Market Act. According to Note 2 of article 4 of this regulation, the imposition of punishments set forth in the present regulations shall not preclude the infliction of cash penalties listed in article 14 of the Law for Development of New Financial Instruments and Institutions and the rules thereof.

RESULTS AND DISCUSSION

We categorized portions of rules and regulations that were relevant to pre and post trading transparency. The main categories of regulatory framework are the **Dissemination** of pre and post transactions information, **Prohibition** of inside information abuse, **Prohibition** of market manipulation, **Recording**, maintenance and reporting documents and information by financial institutions, exchanges and self-regulatory organization, **Trader's** information about procedures and regulation of stocks trading and **Violations** and punishments.

In this stage, we define the association between the main categories; it is clear that all categories have direct or indirect effect on the pre and post trading transparency.

The dissemination of pre and post transactions information has direct effects on the pre and post trading transparency. Prohibition of inside information abuse and prohibition of market manipulation cause entering real and non-fraudulent orders. However, mechanisms such as avoiding executing the suspected orders, halting of the trading symbol, and canceling transactions cause market transparency.

Recording, maintenance and reporting documents and information by financial institutions, exchanges and self-regulatory organization have indirect effect on the pre and post trading transparency; because recording, maintenance and reporting documents and information prepare the space for monitoring, reconstruction of transactions and violations detection and so trace on market transparency.

Trader's information about procedures and regulation of stocks trading has direct effect on the market transparency. Their knowledge of the rules and processes has preventive effect for trading with inside

Research Article

information and manipulating prices. Also knowledge of the rules and processes cause's traders recognize buying or selling false and fraudulent orders.

Punishment also has preventive effect because it causes that TSE publishes pre and post trading information appropriate and timely, persons under supervision record documents and information and traders avoid to trade with inside information or to manipulate market.

In respect to association between the main categories, we present our study's output: the regulatory framework for pre and post trading transparency:

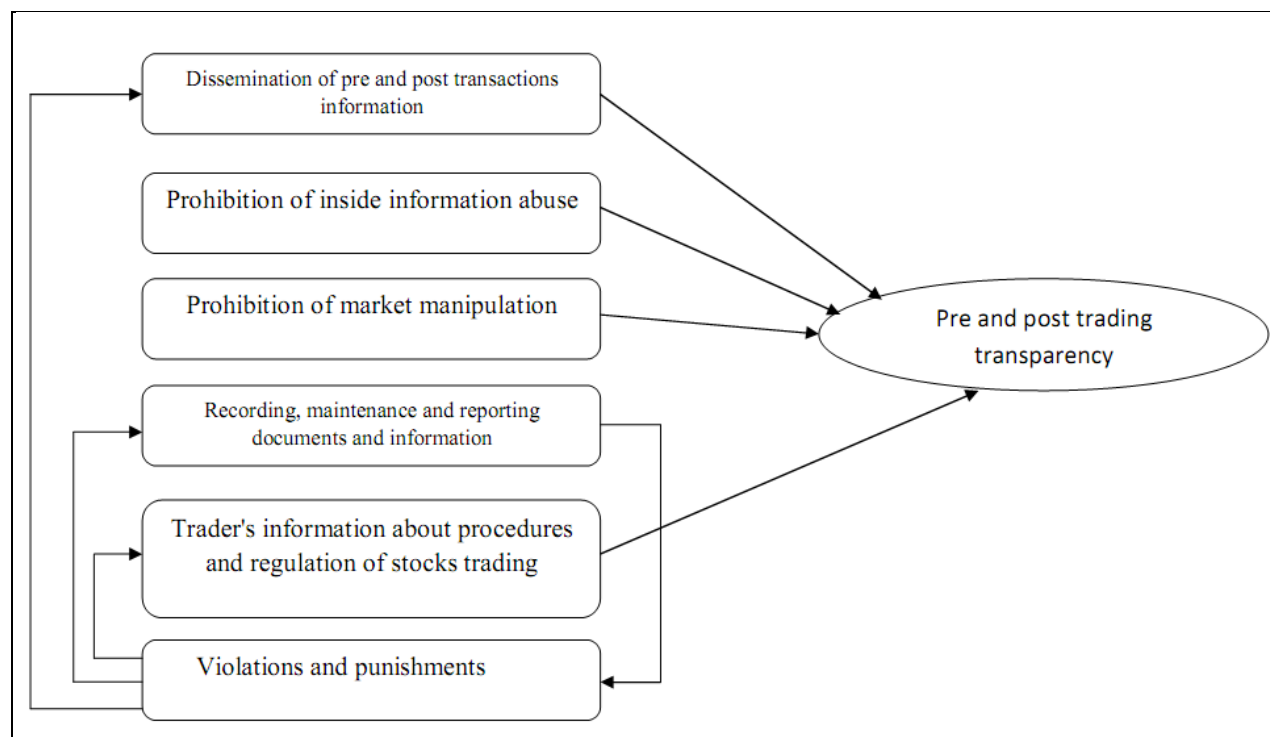


Figure 2: The regulatory framework for pre and post trading transparency

Conclusion

Transparency is a fundamental issue in the design and regulation of markets (Bloomfield and O'Hara, 1999). Pre and post trading transparency is one of the most important issues in security markets. Market transparency refers to the ability of market participants to observe information about the trading process. Although more and more exchanges tend to increase pre and post trading transparency, the effect of market transparency, especially on trading costs and strategies, is still an ongoing debate (Hsieh *et al.*, 2012).

Pre-trade transparency means Obligation to disclose supply and demand orders and Post-trade transparency means Obligation to disclose trades already executed.

We extracted the regulatory framework for pre and post trading transparency based on Iranian capital market rules and regulations.

We can use this framework for future researches. In the future studies, researchers can quantify the relationship between each main and subsidiaries categories. Also they can measure the effects of main and subsidiaries categories on the pre and post trade transparency.

Also the SEO as a regulatory and supervisory institution can use this framework and after assessment of the main and subsidiaries categories can recognize weaknesses and try to amend them and promote pre-post trading transparency.

At last, this research can increase awareness of international investors and researchers about the regulatory framework of market transparency in Tehran Stock Exchange.

Research Article

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