

# Policy Recommendations Design

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Project Coordinator

# Policy Recommendation Design

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- 1. Problem definition**
- 2. Underlying factor identification**
- 3. Design Solution**
- 4. Monitor, Evaluate, Redesign**

# Integrating COMCEC Real Estate Securities Markets

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## I. Problem

- ▶ Funding through capital markets is limited due to inadequate regulatory and institutional capacity in secondary markets, which might be leading to low levels of market capitalisation, liquidity, trading volumes, product diversification, and in turn hesitation for investors.
- ▶ **Why Care?**
  - Real estate industry is a key for economic development and affordable housing as well as infrastructure improvements are of major on-going policy issues. Without well-functioning secondary markets, real estate investments would continue to be primarily based on borrowing that would impose burden on public budget and external accounts.
  - Secondary markets have important functions in spreading the risks associated with illiquid real estate through the economy more efficiently. When a given real estate primary market lacks its secondary market, risks would not be adequately priced, which would be detrimental for that economy as a whole.

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## II. Motivation

- ▶ **It is of great importance for the COMCEC member countries to attract foreign investment in their real estate markets. The growing demand is the key common driver against major diversities.**
  - In many of the countries, the overall financial system is relatively underdeveloped. Mainly relying on banks, existing real estate finance schemes might not be sufficient as expected to provide affordable funds to the society in the primary market. Although Islamic finance is getting its share in the financial system with rapid growth rates, it is still modest in size relative to conventional finance schemes.
- ▶ **The COMCEC member countries differ significantly in legal and institutional frameworks as well as secondary market potentials for real estate securities.**
  - Lack of secondary market trading due to ineffective and inefficient platforms is an important issue and challenge in developing or nascent markets. More specifically, secondary markets are in the early stage and have limited number of listed companies both with a narrow investor base and lacking institutional investors, especially CIS, which result in a limited, ready pool of assets, and a lack of liquidity and volume in the market.

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## II. Motivation

### ▶ Testing Causes

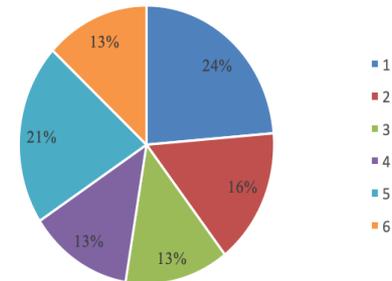
- ❑ A survey that enables a general understanding of COMCEC countries' real estate securities regulatory and institutional frameworks to develop a Preliminary Report and to draft policy recommendations thereon.
- ❑ A gap analysis on the frameworks, main stakeholders regulating real estate securities markets and alignment of country practices with certain established global real estate securities frameworks.
- ❑ A SWOT analysis for evaluating Strengths and Weaknesses, and for uncovering both the Opportunities open to a feasible real estate securities trading venue and the Threats it face

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## Survey Responses

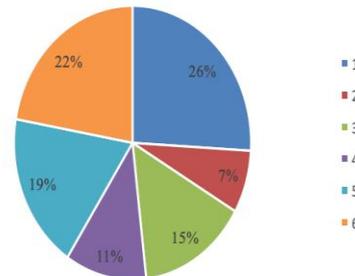
### Potential means

1. Improving the existing regulatory framework.
2. Establishing or enhancing the facilities of trading venue(s) for real estate securities.
3. Promoting real estate securities markets in terms of subsidies (*e.g. tax exemptions etc.*).
4. Adopting generally accepted international standards and principles for market practice.
5. Developing innovative investment products for investors.
6. Cooperating with other markets in order induce real estate securities investments.



### Real Estate Security

1. Sukuks
2. Real Estate Certificates
3. Mortgage/Asset Backed Securities
4. Mortgage/Asset Covered Bonds
5. Real Estate CIS Shares
6. Real Estate CIS Units

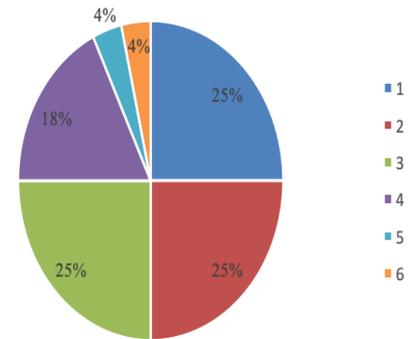


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## Survey Responses

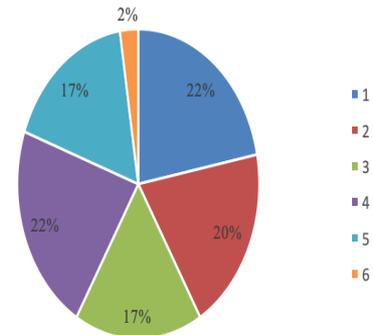
### Benefits

1. Such a venue would increase efficiency in the market.
2. Such a venue would provide liquidity for real estate securities.
3. Such a venue would increase the market depth.
4. Such a venue would enhance fairness in price determination.
5. Such a venue would provide exposure for real estate securities issues.
6. Such a venue would provide domestic investors with new investment opportunities



### Means

1. Intensive promotion of the trading venue (*e.g. international road shows, forums, events etc.*)
2. Cooperation with international bodies
3. Signing contracts with well-known parties to increase know-how
4. Organization of educational programmes
5. Allowing for alternative investment products (*e.g. socially responsible, sustainable finance, green securities etc.*).
6. Using the capacity of regulatory bodies and OIC related organizations like SESRIC.



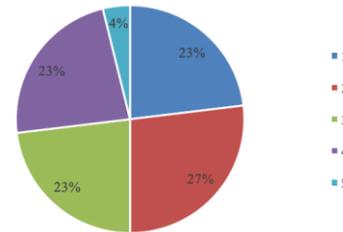
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## Survey Responses

### Vulnerabilities

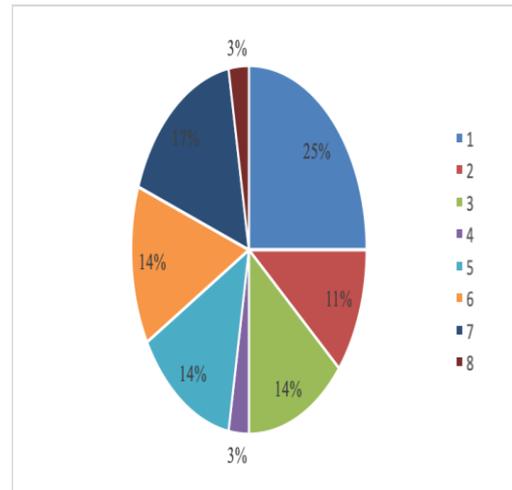
#### Security-Related

1. Lack of a centralised clearing and settlement and custody system.
2. The lack of harmonisation in market regulation.
3. Low volume and value traded.
4. Low participation of investors.
5. Others (*Weak knowledge and awareness*)



#### Issuer-Related

1. Lack of familiarity with international capital markets.
2. Shortage of qualified personnel.
3. Cost and fulfilment of regulatory requirements.
4. Unfair pricing of the real estate security.
5. Lack of investors.
6. Uncertainty surrounding the success of the trading venue.
7. Lack of liquidity in the secondary market.
8. Others (*Disparity between national and venue requirements, particularly in case of listing, disclosure etc., money transfers, exchange rate use, and regulatory arbitrage*)

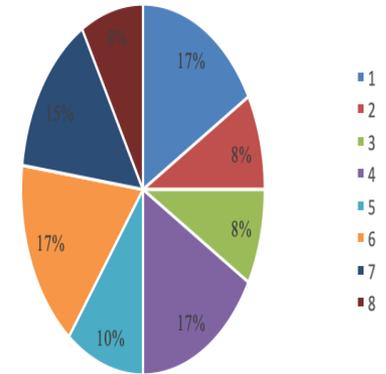


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## Survey Responses

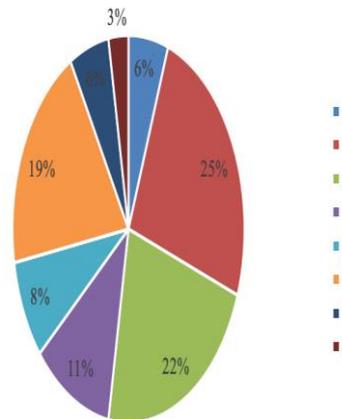
### Means

1. Granting specific incentives or exemptions for issuers/investors (*e.g. tax, costs, fees*)
2. Allowing for multicurrency real estate securities
3. Enjoying market making/liquidity providing services
4. Having a common framework that includes a single set of rules for market participants (*e.g. common CIS principles, common prospectus etc.*)
5. Keeping the product range wide rather than allowing for one or a few specific type of real estate securities.
6. Opening the venue to foreign investors besides member country investors
7. Opening the venue to retail investors as well as institutional investors.
8. Setting the trading hours in order to have the venue open all the time.



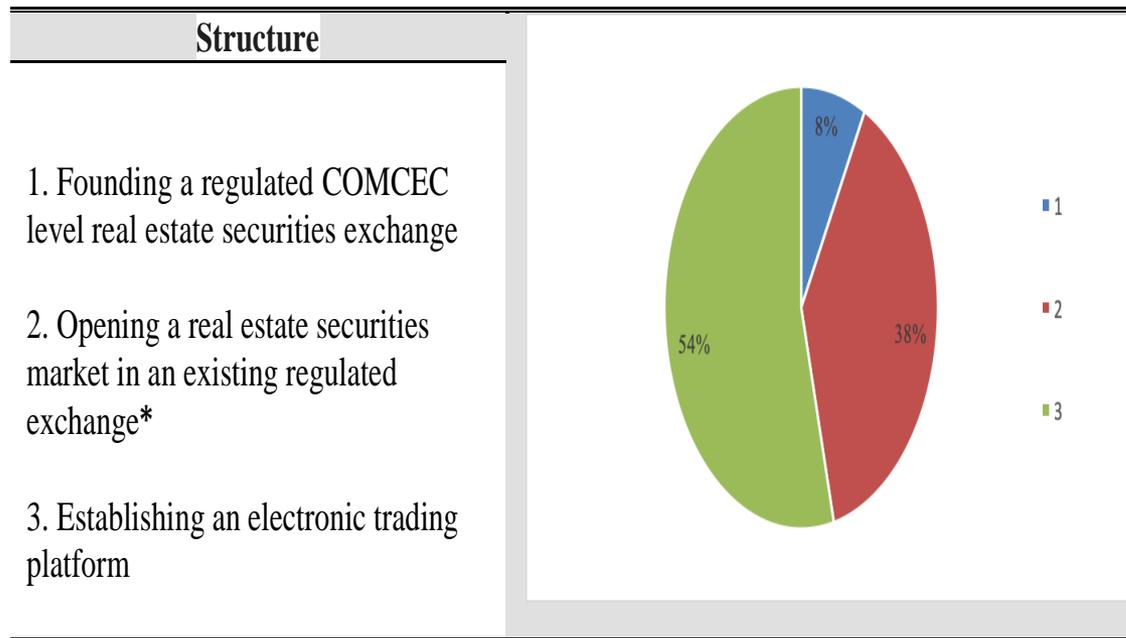
### Criteria

1. Trading venue shall automatically accept each member country's own product regardless of eligibility criteria.
2. Only defined and approved real estate securities shall trade (in issuer terms, it must not be possible for all to enter the market).
3. There shall be common standards (*e.g. a common framework for CIS etc.*) to be met.
4. Issuers and the participants in the venue shall meet eligibility criteria as well.
5. Investment grade rating required.
6. Underlying assets shall possess predefined quality standards.
7. There shall be no restrictions on the tradability of the relevant security.
8. Others (*a network of stakeholders, e.g. a board of regulators or some authorized brokerages, should sign predefined standards and requirements and communicate them with issuers*)



# Integrating COMCEC Real Estate Securities Markets

## Survey Responses



# Integrating COMCEC Real Estate Securities Markets

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## III. Policy Recommendations

### ▶ Policy Questions #1

- Which policy actions at both national and international level should be prioritized in developing or improving real estate securities markets for further deepening and strengthening capital markets throughout the COMCEC member countries?
- **Attaining a certain level of development for the real estate securities markets to work.**
  - ▶ Enhancement of the institutional strength of the real estate markets by means of various measures needed for the emergence of real estate securities, such as solid property rights, precise registration procedures, reliable valuations, improved transparency, facilitated investments and increased funding capacity.
  - ▶ Commitment to sound fiscal and monetary policies, more coherent industry strategies, and an enhanced investment climate.

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## III. Policy Recommendations

### ▶ Policy Questions #2

- What specific achievements do the markets require for real estate securities in order to develop a larger domestic investor base and attract foreign investments, particularly from institutional investors, e.g. CIS?
- **Setting up a robust regulatory infrastructure through which the risks associated with real estate securities are assessed and appropriately controlled within a framework that follows best practice and international standards.**
  - ▶ Achievement of investor protection, market fairness, efficiency and transparency and systemic risk reduction.
  - ▶ Product innovation that provides diversification opportunities in order to synchronize the market's pace with global changes.

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## III. Policy Recommendations

### ▶ Policy Questions #3

- What kind of necessary measures should be fulfilled to ensure that the secondary markets for real estate securities meet sufficient liquidity and trading volume requirements?
- **Improving the ability to access capital at favourable costs.**
  - ▶ Provision of an enabling and supportive market infrastructure for the real estate securities market to flourish.
  - ▶ Supply of a broad range of financial instruments.
  - ▶ Utilization of technology to bring together a large and diverse pool of market participants in order to uncover available liquidity.

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## III. Policy Recommendations

### ▶ Policy Questions #4

- Should the legislative and institutional framework regarding real estate securities markets be aligned with each other based on a stringent regulatory harmonization approach or should a home-rules-apply scheme in which corresponding parties mutually recognize national rules and regulations should be followed?
- **Allowing for a functional integration to take the advantage of home-rules-apply in the short term while maintaining longer-term strategies to develop more advanced integration opportunities.**
  - ▶ Improvement of the capacity of each individual market by means of technology that enables them to complement each other in providing investors with an easier and more efficient approach to trade in different markets.
  - ▶ Collaboration to reinforce the ground for a robust legal and institutional framework that removes disparities.

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## III. Policy Recommendations

### ▶ Policy Questions #5

- Can further cooperation and improvement among the COMCEC member countries' capital markets be reached through the use of technology that connects market participants to each other's real estate securities markets and enables them to invest in a broad range of real estate securities?
- **Providing simultaneous and real-time remote access or connectivity to a variety of real estate securities already listed and traded in member country markets.**
  - ▶ Development of a technically simple trading model for real estate securities that establishes the ways for easy access to cross-border markets and avoidance of embarking upon too-infeasible-to-implement policies regarding financial integration.
  - ▶ Investment of a relatively low cost technology that helps parties to turn their focus to their key competences.

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## III. Policy Recommendations

### ▶ Policy Questions #6

- Should such connection be achieved by means of a stock exchange-like infrastructure where real estate securities listing and trading procedures are regulated and supervised or a dedicated multilateral link-like electronic trading platform where real estate securities that have been already listed among the COMCEC member markets are traded?
- **Establishing a trading link that provides a standard trading interface with a single connection point for market information and order routing.**
  - ▶ Adopting a hub and spoke order routing model wherein the hub is the link and spokes are the national exchanges in order for easy access to multiple real estate securities markets with low regulatory prerequisites as a first step.
  - ▶ Allowing the model to evolve gradually into an end-to-end and all-to-all comprehensive platform in the future.

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## III. Policy Recommendations

### ▶ Policy Questions #7

- Should the initiative be undertaken in a phased approach in which ripe markets within the COMCEC member countries proceed with a pilot project while others jump on the board when relevant criteria are met or in an all-at-once approach in which all the COMCEC member country markets are involved at the same time in the future?
- **Proceeding with a feasible plan with front-runner exchanges upon bilateral arrangements in a phased-in strategy rather than an all-at-once model that would only be employed after relevant improvements in all markets are completed.**
  - ▶ Endorsement of a cooperative and collective approach toward planning, designing, developing and operating the link to achieve an effective integrating platform for real estate securities upon required approvals.
  - ▶ Integration of only those member countries that have attained a certain degree of real estate market development and progressively increasing the numbers as more member countries' infrastructures develop.



Coffee break



25.09.2019

Conrad Istanbul Bosphorus

# Integrating COMCEC Real Estate Securities Markets

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## IV. Specific Design and Support Solution

### ▶ Design

- We propose a common electronic trading platform for cross-border investors that allows investors to trade in real estate securities through a trading link, namely the CRESCENT Link.

### ▶ **Actors (no place is required, but a joint venture could be established to strengthen the Link's governance, if needed)**

- Beneficiaries: National stock exchanges, issuers (foreign, domestic), investors (foreign domestic, retail, institutional), intermediaries (brokerage firms, banks), post-trade facilities providers (clearing, settlement & custody)

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## IV. Specific Design and Support Solution

### ▶ Roles

- ❑ Partner national stock exchanges develop or lease the product, set respective trading protocols and specify the real estate securities asset classes to trade.
- ❑ National stock exchanges, post-trade facilities providers and intermediaries make necessary improvements or adjustments in their systems.
- ❑ Home rules apply for all parties provided that trades are executed in an effective and transparent manner.

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## IV. Specific Design and Support Solution

### ▶ Justifying Solution

- ❑ Hub and spoke model wherein the hub is the Link and spokes are the national exchanges would allow easy access to multiple real estate securities markets with low regulatory prerequisites.
- ❑ Connectivity among participant countries would allow national stock exchanges to remain independent with their systems while integrating with each other through a simple FinTech solution at the same time.
- ❑ The trading platform would facilitate the free flow of capital in real estate securities and provide liquidity and transactional abundance in the markets which in turn would reduce transactional costs and increase transparency.
- ❑ Intensified competition would induce countries to improve their legislative and institutional frameworks to facilitate investment flow to their national markets.

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## IV. Specific Design and Support Solution

### ▶ **Solution Feasibility**

#### □ Financial:

- ▶ Obviously, there would be costs incurred. For instance, existing interfaces would have to be upgraded to support the new technology.
- ▶ But, the technology required for the model would be simple to employ and would be provided with low cost. Thus, instead of heavily investing in technology, parties can turn their investment focus to their key competences.

#### □ Administrative:

- ▶ Model would allow member country exchanges to take the advantage of enjoying “home rules apply” cross-border connections while tackling institutional disparities.
- ▶ Collaborative efforts, i.e. MOUs, bilateral or multilateral agreements and protocols that would reinforce the ground for a robust legal and institutional framework would enable the initiative obtain greater political support, capacity building and adequate funding.

#### □ Political:

- ▶ The model would be based on the mutual recognition of partner countries’ qualifications granted by national authorities, no national authorities would become powerful over the other.
- ▶ Each individual stock exchange would turn into a point of access to an international market via a network consisting of a series of links among stock exchanges upon a hub, which allow trading of securities internationally.

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## V. Monitoring, Evaluation and Design

Planning, designing, developing and operating the CRESCENT Link

### ▶ **Process Monitoring**

- A senior steering committee led by COMCEC member country authoritative bodies should be set up in order to coordinate and oversee the overall process. as well as report to a dedicated COMCEC forum.
- The project should be administered by a project management team involving a project manager and representatives of particular expertise in cooperation with various national working groups appointed to engage in dealing with legal, regulatory or technical requirements of the project.
- A detailed project plan should be developed by the project management team and approved by the steering committee. The plan should define and adjust the scope of the work to enlighten the way for a thorough assessment of the feasibility of the project by divulging the requirements of resources, a reasonable determination of project timescales, and estimated project budget.

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## V. Monitoring, Evaluation and Design

Planning, designing, developing and operating the CRESCENT Link

### ▶ Impact Evaluation

- An appropriate level of documentation would be required by which project's objectives are refined and steps to meet these objectives are defined. In order to enable the relevant documentation gives a better understanding, a stocktaking exercise would be beneficial to elaborate on the organization, operations, and technical capacity of COMCEC member country markets for their participation to the CRESCENT Link. Such an exercise would complement the preliminary report and support the project plan for addressing any potential gaps effectively.
- All potential risks that the project would face in the implementation stage should be effectively managed and mitigated with respect to the evaluations made in the planning stage. Risks include managing variations to the original model, delays, budget overruns and faltering commitment of some individual participants. Other potential risks would be “development fatigue” and “project creep”.

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## V. Monitoring, Evaluation and Design

Planning, designing, developing and operating the CRESCENT Link

### ▶ Redesign Feedback

- Transparency throughout project deployment would allow in ensuring ongoing buy-in and commitment from all relevant participants based on a communicative feedback mechanism.
- Progress reports, in this regard, should be produced and should have a broad scope, though still with a certain level of detail. More detailed technical annexes may be produced and attached to the main reports. Progress reports should also be made available to broader audiences, though probably in a simplified format. This will serve a crucial purpose, which is creating awareness of the Link and the benefits of using it.