

# Market Development Task Force of the COMCEC Capital Market Regulators' Forum:

## “Market Infrastructure Development Initiative”

Istanbul, 31 October 2017

Chair of Market  
Development Task Force



Co-Chair of Market  
Development Task



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# Executive Summary

## Purpose

To gauge the level of capital markets and Financial Market Infrastructures (FMIs) development in OIC countries and to determine areas in need of development.

## Key Areas of Focus

- Market structure
- Composition of the post trade model elements and role of securities exchange
- Investment products and services
- Risk management framework and tools employed in this regard
- Role of authority in mitigating systemic risk
- Adherence to international best practice principles of FMIs, the efforts made and challenges faced by the authority in this regard

## **Key Challenges**

- The sample size of questionnaire results was too small and limited which made it difficult to draw a solid conclusion.
- Some questionnaire answers were incomplete or not applicable to all surveyed jurisdiction.

# Surveyed Jurisdictions

It should be noted that out of the 57 COMCEC member states, only 7 members (12%) responded to the Questionnaire, and 6 were from the Working Group.

No.	Authority
1	Capital Market Authority- Kuwait 
2	Securities and Exchange Organization –I.R. of Iran 
3	Securities Commission Malaysia 
4	Capital Market Development Authority- Maldives 
5	Capital Market Authority- Saudi Arabia 
6	Capital Markets Board- Turkey 
7	Securities and Commodities Authority-UAE 

## Major Market Development Initiatives undertaken by CMA – Kuwait:

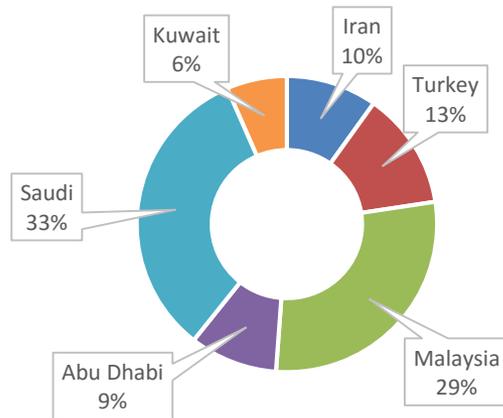
1. The issuance of the executive bylaws – 16 Modules
2. The privatization of Boursa Kuwait
3. Shifting towards a (T+3) settlement cycle
4. Applying international style corporate actions timetable (Cum-Divided, Ex-Dividend, Record Date, Payment Date)
5. Introducing custodian trade rejection mechanism
6. Introducing a Delivery versus Payment (DvP) module 1 mechanism
7. Introduction of short sale and stock lending and borrowing for market makers
8. Changing the price tick size for trading listed companies

## Key Findings

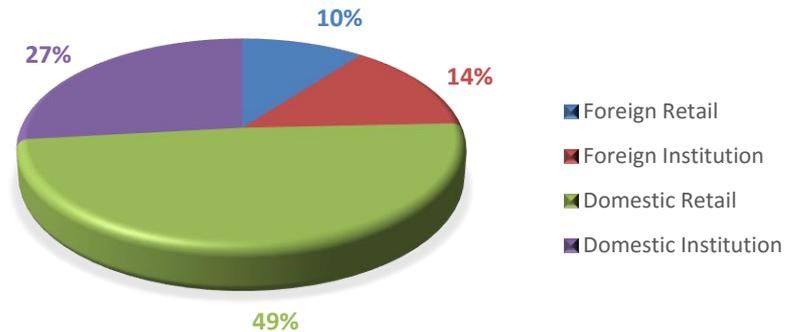
1. Results suggest that the availability and diversity of products available to investors is a potential driver of market size and market activity as measured by market capitalization and trade volume respectively
2. Markets with well-developed FMIs, especially ones that have central counterparty clearing, tend to have more robust risk mitigating tools at their disposal
3. Well developed markets employing the robust risk mitigating tools such as IM, VM, pre-trade margins, and a guarantee fund with CCP contribution tend to attract relatively more foreign direct investment
4. Domestic investment is also of high importance to market liquidity and activity, as in most cases it comprises the bulk of traded value in capital markets. This includes both domestic retail and institutional
5. Markets with a larger number of listings tend to exhibit higher total volumes relative to markets with a smaller amount of stock listings

# Key Results – 1/3 - Legends

TOTAL MARKET CAPITALIZATION

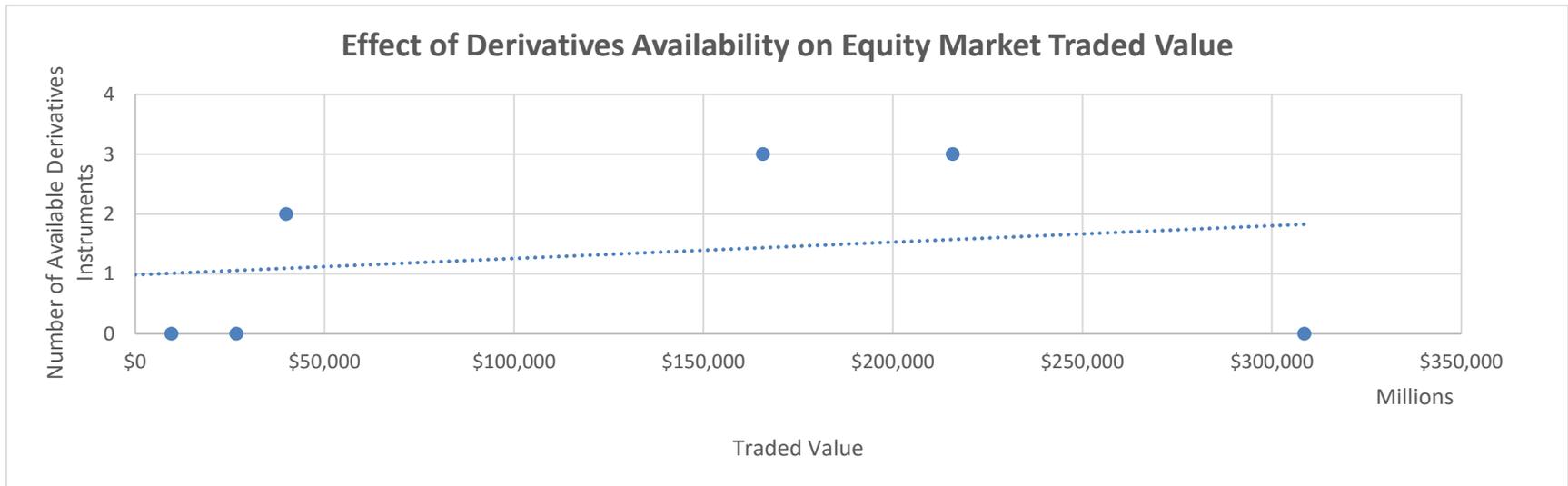
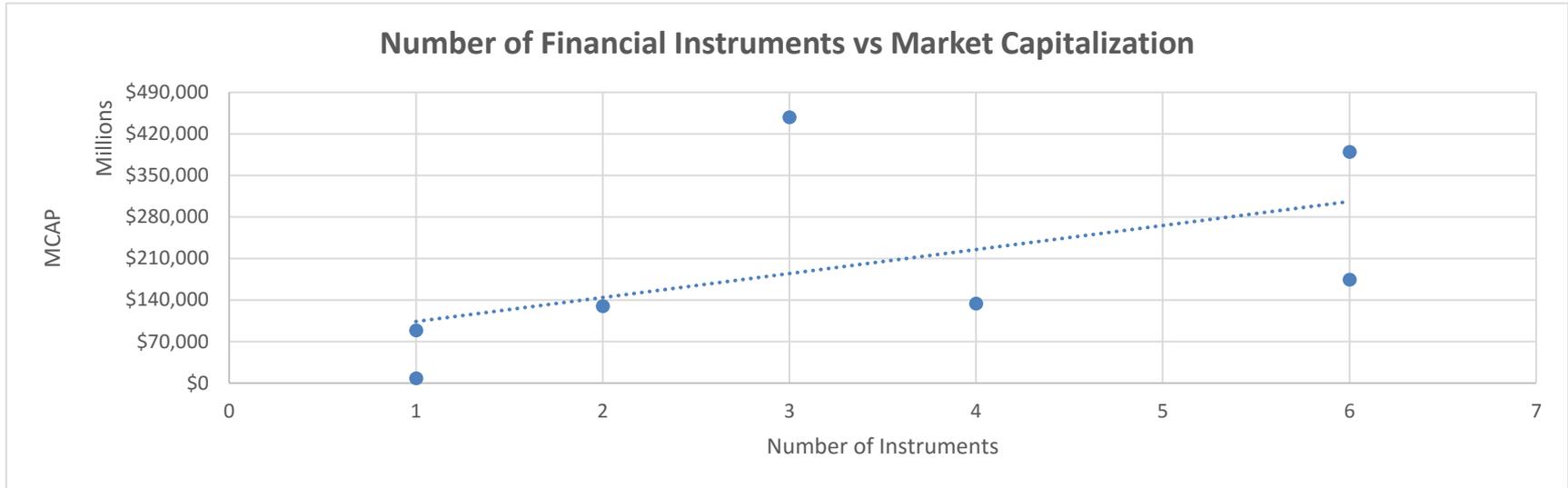


Total Traded Value Composition



On average, domestic investment in capital markets comprises the bulk of total investment. Foreign Institutional Investment is also a significant source of capital and liquidity in surveyed markets. Policies should be designed and resources allocated to promote these two types of investment.

# Key Results – 2/3



## Key Results – 3/3

### 1) Securities Lending and Borrowing Purposes in Jurisdictions

Country/Purpose	Short-Selling	Settlement	ETF Creation	Market Making	Buy-in-Board
Kuwait				Yes	
Malaysia	Yes	Yes		Yes	Yes
Kingdom of Saudi Arabia	Yes	Yes	Yes		
UAE	Yes			Yes	
Turkey	Yes			Yes	Yes

### 2) Types of Collateral Accepted in the Surveyed Jurisdictions

Accepted Collateral	Kuwait	UAE	Saudi Arabia	Malaysia	Maldives	Turkey	Iran
Cash	x	x	x	x	x	x	
Equity				x		x	x
Bank guarantee						x	x
Letter of credit				x			

# Conclusion

- In conclusion, many factors are involved in the level of financial market infrastructure development. These factors include:
  - The quality of the risk management framework;
  - Availability of mechanisms such as central clearing and SLB;
  - Rules and regulations that support developmental goals;
- The effect of one factor alone on the size and liquidity of a market is ambiguous because it can be offset by many other influencing factors.
- The presence of well-developed FMIs in a market creates a more attractive environment to trade and list different kinds of financial instruments.
- Therefore, we strongly believe that it is the collective level of development of all FMIs and their resulting synergies that ultimately determine how efficient and resilient a market is.



# Thank you