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Global Financial Crisis and Emerging Markets

COMCEC Meeting

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Highlights of The Financial Crisis-1

- The crisis in many aspects has been discussed in many platforms such as FSB, G20, IOSCO, OECD, IMF etc.
- From the emerging markets financial regulatory perspective what are the reflections of the crisis?



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Highlights of The Financial Crisis-2

- Financial crisis raised many issues to be considered, but main highlights are:
- Systemic risk
 - Prudential regulation
 - Changes in the scope of regulation
 - Regulatory cooperation



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Highlights of The Financial Crisis-3

- **Systemic Risk**

The systemic importance of financial institutions, markets, or instruments should be assessed and risks should be managed

- **Prudential regulation**

Strengthening prudential regulatory standards (capital & liquidity requirements, risk management and stress testing, risk management of securitization, regulatory oversight of credit transfer products (e.g. CDS))



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Highlights of The Financial Crisis-4

- **New Regulation Topics**

Regulation of hedge funds; OTC derivatives; credit rating agencies; commodity markets (to address excessive commodity price volatility); improving accounting and disclosure standards

- **Regulatory cooperation ever more important**



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EM in the World's Economy

Emerging market economies' share of world GDP has been increasing over years.





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Financial Crisis in Emerging Markets

- ✓ A series of surveys within the EMC of IOSCO mirrors the effects of the crisis on emerging markets (from the financial markets regulatory perspective)



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Financial Crisis in Emerging Markets-2

- Direct exposure to sophisticated markets has been low
- But faced secondary impacts: Sources of market instability included; the repatriation of capital by foreign investors, withdrawal of international credit lines, exchange rate volatility
- These shocks were accompanied by highly volatile securities markets and illiquid securities.
- None of the respondents experienced or reported any systemic disruption on financial markets.



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Most Common EM Regulatory Responses to the Crisis

- ✓ Besides the efforts on developing the market structure, the regulatory responses of EMs to the financial crisis are common with the emerged markets such as:
 - Strengthening rules and procedures for enforcement and supervision
 - New rules for CIS operators' requirements
 - Stricter risk management and risk based supervision



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Most Common Regulatory Responses to the Crisis-2

- Improving disclosure requirements
- Increasing capital adequacy requirements for intermediaries
- Investor education
- Advance review of OTC derivatives



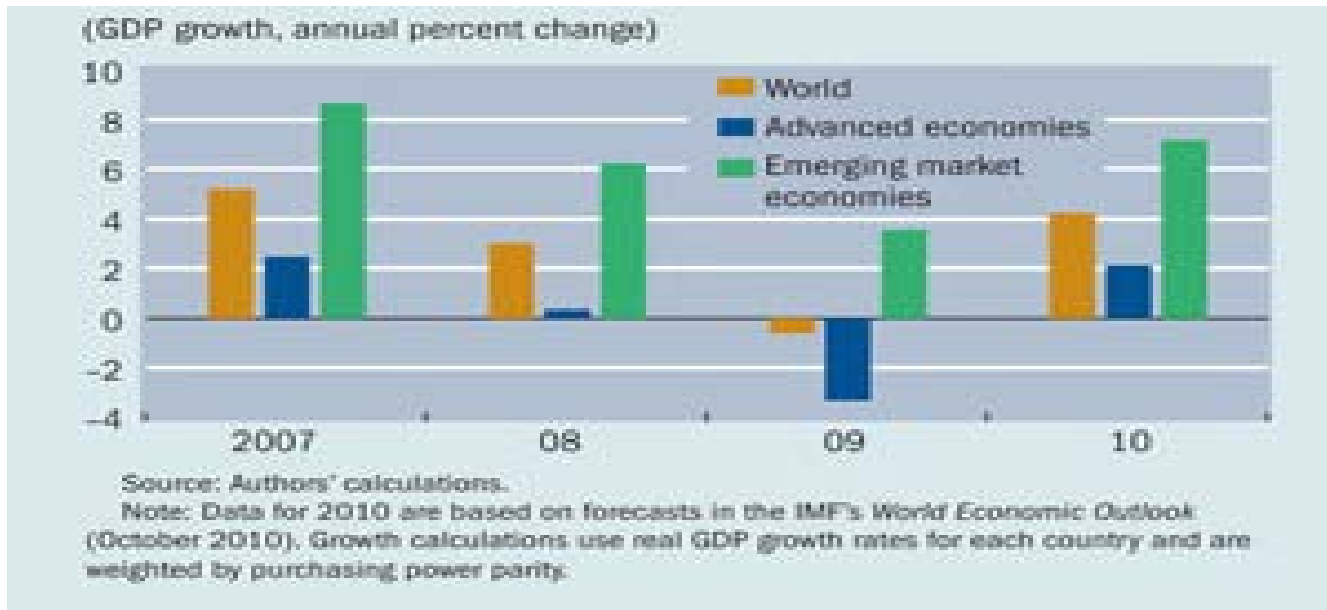
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Major regulatory & supervisory challenges

- Efforts on deepening and broadening the capital markets have been the major challenge
- Improving governance and compliance in the market and improving regulatory capacity are other main challenges
- These efforts are not necessarily directly related to the financial crisis

Key Observations-1

Emerging markets recovered from the crisis faster than advanced economies.





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Key Observations-2

- Emerging market regulators recognized the need to strengthen oversight and supervision of market participants, widen the scope of regulatory oversight, strengthen financial regulation (same as the developed markets)
- Emerging markets recognized their need for being participated more actively in international financial organizations and decision making processes.



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Key Observations -3

- Securitized products are considered to be an exacerbating factor on the crisis, however it did not create this effect in EM's because of the lack of complicated financial products
- There are studies* showing that in EM jurisdiction where securitization is available, the regulatory framework of a significant number of EM's already address many of the lessons learned from the crisis.

*<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD334.pdf>



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Key Observations-4

- Focus on “regulatory approach and capacity” and “governance and compliance” issues is improving, however this is not basically related to the crisis.
- ***Key point:*** EM are still focused on developing their markets, but this time by using the “lessons learned from the crisis”.



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THANK YOU!

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