

## **STATUTE FOR MARKET DEVELOPMENT TASK FORCE**

### **CONCEPT**

The capitalization ratio (market capitalization as a proportion of GDP) considered to be a key indicator of stock market development. Stock market development involves the deepening of the stock market by increasing market capitalisation. Higher income economies with sounder macro policies, more efficient legal systems, better shareholder protection, and greater openness have more developed stock markets. These factors, also affect internationalization. Against this background, the world economy has undergone noticeable changes over the past decade, both in terms of the shifting balance of economic and financial power among groups of countries and in terms of structural changes. In this context, applying international standards has become ever more important for all economies.

Adopting the key standards designated by the Financial Stability Board (FSB) as necessary for the proper functioning of capital markets (IFRS, ISAs, IOSCO, OECD principles) would support compliance of the national securities market frameworks with international standards, develop capital markets and increase their credibility among international investors.

Implementation of international standards requires capacity building for public and private capital market institutions. Capital markets with essential infrastructures are particularly important. Within this perspective, this task force aims to contribute establishing new cooperation and coordination areas to reinforce capital market regulators in order to support financial markets operate effectively for the best interests of the investors and market participants.

Besides, improving macro economic conditions, specific capital markets reforms, including privatization of state-owned enterprises, financial liberalization play important role. Financial globalization has also advanced in the last two decades with increased cross-border capital flows, tighter links among financial markets, and greater commercial presence of foreign financial firms in countries around the world. An important element of the globalization trend has been increased stock exchange activities taking place abroad, most notably for emerging markets, but also for developed countries. Many firms now cross-list on international exchanges, with depositary receipts being a popular instrument to access international markets. Going forward, many expect these trends to continue as access to information improves, standards (concerning corporate governance, listing, and accounting) are more globally harmonized, technology advances, and intermarket linkages further increase. In this context whether the anticipated linkages between the domestic financial system and the international system has established or vision of well-functioning financial system been communicated to the public is essential.

## **MANDATE**

The mandate for this TF had been discussed and decided through consensus by the delegates at the September 2012 Forum meeting. In this context, the delegates considered the following issues as essential to the TFs mandate.

- **Chair/Co-chair for the Task Force**

Chair/co chair for the Market Development Task Force is elected by consensus at the General Assembly of the COMCEC CMR Forum. The terms of task force chairmanship would be for one year however this can be changed for two years term at the annual General Assembly meeting.

In coordination with the Forum Secretariat, Chair and Co-Chair determines the topics for co-operation to be pursued as the main work of the Task Force.

- **Working procedures**

Chair and Co- Chair may select some of the cooperation proposals set out in this Statute or they may also choose to work on a different topic relevant with the subject matter of the Task Force.

In case more than one topic is determined for co-operation, prioritizing the topics would be important therefore Task Force Chair and Co-chair have to set a target and a timetable for the task force workings. If the Task Force is working on more than one issue then establishing the working groups would be in the responsibility of TF chair/co-chair. As a general argument for the task force, number of working groups would depend on the topics the task force covered. And it would also be dependent the way task force organizes its work. A member authority can be a member in more than one working group in the Task Force. The Secretariat of Forum shall create a special e-mail account for this TF in order to facilitate the sharing of information and experience among members.

- **Co-operation Tools**

Preparing surveys, evaluating survey responses, drafting need-gap analyses and guidance reports, organizing conferences, training seminars for member authorities, establishing an information database for researchers should be considered as co-operation tools.

- **Meeting arrangements**

TF physical meetings shall be twice a year. The number of meetings may also depend on the workload and availability of Task Force members. One of the meetings will be held in Istanbul a day before the General Assembly of the Forum. The second meeting will be held at an appropriate date and place decided by the chair/co-chair of the Task Forces and the Forum Secretariat. Also the chair and co-chair will decide how often they would meet electronically.

- **Reporting requirements**

Quarterly reporting; the Task Force Chair/Co-Chair should report to the Forum Secretariat four times a year regarding the outputs of their workings.

- **Communication arrangements**

Forum website should be used as a tool for effective communication.

COMCEC CMR Forum website shall be a tool for sharing of task force working documents, information and other related documents. Every member authority will have the opportunity to upload some of their important country-specific developments/information at the website.

- **Membership**

Every member authority can be a member of the Task Force. Members should designate a contact person and notify to the Forum Secretariat.

This Mandate is not intended to create any legal rights or obligations.

## **POSSIBLE CO-OPERATION PROPOSALS FOR MARKET DEVELOPMENT TASK FORCE**

- **Transparency Requirements-Public Disclosure Systems**

One of the fundamental supporters of market development is transparency and disclosure. Regulations should pave the way for development of markets by providing a market disclosure environment to ensure the concurrent and equal information flow to all market participants. Regulation should also ensure the market discipline and transparency which is key to establish and maintain the investor trust.

A central public disclosure system for use by investors in stocks and corporate bonds is particularly important. Web-based electronic disclosure platform for disclosing ad-hoc information, quarterly and annual reports via the system is useful for investors and market participants.

Regulatory framework and technical infrastructure for comprehensive, relevant and timely information collection and dissemination on transactions in the financial system, institutions are particularly relevant.

Besides, non-financial disclosure (corporate governance structures and practices, education and professional experience of board members, key executives, total and individual remuneration of directors and key executives.) also contributes to the transparency level of the markets.

- **Diversification of Capital Market Instruments-Bond Market Development**

Considering the main pillars of a financial sector, as banking, capital markets, and insurance, instead of depending heavily on one of these, a diversified financial sector is more stable than one highly dependent on the banking system.

In order to put a greater emphasis on stimulating the development of a well functioning bond market;

-improving transparency and liquidity, legal environment, disclosure requirements,  
-broadening investor base – retail as well as institutional investment  
are regarded helpful.

For product diversification, derivatives and structured products could be an option and products for local needs and preferences may also be encouraged.

- **Development of Capital Market Infrastructures Such As Clearing, Settlement, Central Counter Party, Custody, Dematerialisation And Registration**

Market infrastructure are referred as the institutions and mechanisms that support the trading function by disseminating prices, bringing buyers and sellers together, ensuring that financial obligations are efficiently discharged, and providing the regulatory environment within which all participants operate. This financial infrastructure is most visible in the longest-established markets, such as equity trading, where it takes the form of established institutions – the stock exchange, the clearing house, the depository. But other markets, such as trading in foreign exchange, bonds and over-the-counter derivatives, also require similar functions to be fulfilled.

Financial regulation involves international co-ordination and co-operation. A jurisdiction should implement internationally recognized regulatory standards in a manner that serves the needs of its investors and market structure. However, efforts should be made to promote consistent implementation of such standards. In this regard, after the global financial crisis to improve market transparency, review systemic risk management issues, within this scope, measure and reduce systematic risk and drive down the cost of trading through greater use of centralised clearing, automation of trading, and new trade reporting regimes have been common topics to follow for a sound capital market infrastructure.

In general markets and international standard setters have established that clearing and settlement periods for stock exchanges should be between T+1 and T+7. Along with market infrastructure problems, investment restrictions on foreign investors in some cases limit the participation of foreign institutional investors in capital markets.

- **Institutional Investors-Collective Investment Schemes (CIS)**

Institutional investors, those financial institutions accepting funds from other parties for investment by the institution in its own name but on their clients/beneficiaries behalf, such as pension funds, mutual funds and insurance, are now a major feature of many jurisdictions and are significant players in the global economy.

A CIS is an arrangement that enables a number of investors to 'pool' their assets and have these managed by an independent professional, such as a fund manager who will reduce risk by investing the pooled money in one or more types of asset. Most investment 'funds' are collective investment schemes. Investments are often in gilts, bonds and quoted equities, but depending on the type of scheme can go further, such as into unquoted shares or property.

This TF may discuss the possibilities and advantages of broadening the institutional investor base for COMCEC financial markets and what kind of regulatory incentives or framework could be encouraging for the CIS.

- **Exchange Integration**

Operational integration of exchanges and facilitating sub-market trading of exchanges within the COMCEC member states, development of capital market infrastructures and cross market distribution channels among the OIC members may be considered as cooperation areas.