

COMCEC Task Force on Market Development

Terms of Reference

Development of Capital Market Infrastructures

Background

Market infrastructure refers to institutions and mechanisms that facilitate the recording, clearing, and settlement of transactions and 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. Capital market infrastructures can strengthen the markets they serve and play a critical role in fostering financial stability; however, if not properly managed, they can pose significant risks to the financial system and be a potential source of contagion, particularly in periods of market stress.

The quality of the capital market infrastructure plays a crucial role in the ability of any market to attract international investors. If risks or costs are high, investors will be deterred, liquidity will be lost, and the market will not develop as rapidly as it could. The presence of a CCP reduces risks for investors and offering delivery of securities against payment of cash by a CSD reduces both costs and risks for investors. Therefore, it is in the interests of both local market participants looking to attract international capital, and international investors attracted to local market investment opportunities, to ensure that the market infrastructure operates to international standards.

The capital market development in many OIC countries is being hampered by lack of investor protection and transparent securities trading as well as due to inadequately developed market infrastructure. OIC jurisdictions need to implement internationally recognized regulatory standards in a manner that serves the needs of their investors and market structure. In this regard, Implementation of global standards for market infrastructures is essential in enhancing safety and efficiency in payment, clearing, and settlement arrangements, and more broadly, to limit systemic risk and foster transparency and financial stability.

Objectives

Smooth functioning of securities market infrastructure is vital for the proper functioning of the market, economies and the stability of financial systems. In this context, the COMCEC CMRF's objective for the mandate to provide guidance to OIC capital market regulators for the development of market infrastructure is to;

- i.) ensure that the design and operations of capital market infrastructure in the member jurisdictions are sound, safe, and efficient,
- ii.) promote efficiency and competition in the capital markets that would reduce the transaction costs, and
- iii.) ensure market fairness, i.e., all investors have a reasonable opportunity to trade at the best price available for their transaction size.

These objectives foster creation of an integrated securities market infrastructure for the OIC securities market. The ultimate goal is that investors within the OIC should face similar costs and conditions whether they are settling a domestic trade transaction or an OIC wide trade transaction.

Keeping in view the objectives mentioned above, the emphasis of the mandate will be:

(1) to assist the members of the COMCEC Capital Markets Regulators Forum understand different practices and regulations concerning capital market infrastructures in place in member jurisdictions;

(2) to identify useful regulatory elements that could be adopted by members, that may intend to improve their regulatory frameworks and infrastructure in the capital markets; and

(3) to develop recommendations or best practices for appropriate infrastructure development that would lead to enhanced investor protection, reduced bottlenecks and better functioning of the capital markets as a whole.

The focus will be on development of a harmonized regulatory framework for COMCEC member countries which will facilitate regional financial integration and lead to broadening and deepening of capital markets in COMCEC member states.

Scope of Work

The work will primarily focus on two different aspects of developing an appropriate capital market infrastructure. The first aspect would be to highlight different market infrastructure institutions such as exchanges (both exchange trading and Over the Counter), depositories, clearing and settlement institutions that exist in COMCEC member states and the linkages between these institutions which make the capital markets function in an efficient and orderly manner. Furthermore, the study will also focus upon ownership and governance structures of these institutions.

The second aspect will assess how the COMCEC member regulators have worked to develop solutions, from more pre- and post-transaction transparency, to central clearing and greater use of electronic platforms for transaction execution. Here the aim would also be to map prevailing market infrastructure in OIC jurisdictions with global regulatory standards.

The following issues will be studied in detail by the task force:

- Different capital market institutions that exist in COMCEC member states and role of each institution in the overall capital market framework
- Ownership structures and governance of capital market infrastructure institutions
- Regulatory frameworks providing pre conditions of securities markets institutions including bifurcation of regulatory responsibilities between the apex regulator and the self-regulatory capital market infrastructure institutions
- Internal controls in place within these institutions
- Level of autonomy the institutions enjoy
- Investor Protection measures in place generally and in case of insolvency of the institutions
- development of uniform model standards for the capital market institutions of COMEC members related to market operations including trading platforms, risk management, market surveillance, market integrity and enforcement
- Problems encountered within the current systems
- Measures to make enhanced use of technology for greater transparency and lower transaction costs
- Recommendations or guidelines on development of capital market infrastructures for COMCEC member jurisdictions

Intended Approach

To carry out the mandate, the ToR of the mandate will be shared with all members and the project team of approximately 3 to 4 COMCEC members will be formed through voluntary participation. The team will be led by the Chair of the Task Force and supported by the Vice-Chair on all deliverables. All coordination aspects of the task force will be managed by the Chair of the Task Force with the assistance of the Capital Market Regulatory Forum Secretariat.

A survey questionnaire will be created by the task force. After analyzing the information provided by the members responding to the survey, the task force will produce a comprehensive report providing analysis and, as appropriate, recommendations for developing an appropriate capital market infrastructure.

Timeline

Deliverables	Date	Responsibility
Development and Approval of Terms of Reference for the mandate	4 th week January 2013	SEC Pakistan
Formulating a Working Group from member states to work on the mandate	1 st Week February 2013	
Development of Survey Questionnaire	February 3 rd Week 2013	Working Group Members
Deadlines for responses to the Survey Questionnaire	March 3 rd Week 2013	
Analysis of responses	March – April 2013	Working Group members
Finalization of Report	April – May 2013	SEC Pakistan and SEO Iran
Conference for member jurisdictions and 2 nd meeting of the taskforce (approval of final report)	End May 2013	
Creating database for researchers	June 2013	
2 nd Task Force Meeting, Evaluation of the Output (Report & Database) Discussion on the next steps in accordance with the findings of the 2013 work	September, 2013	COMCEC CMR Forum Secretariat SEC Pakistan and SEO Iran