



## Report from the Chair of the Growth and Emerging Markets Committee (Formerly known as the Emerging Markets Committee)

### Ranjit Ajit Singh

- > Vice Chair of the IOSCO Board
- > Chair of the Growth and Emerging Markets Committee
- > Chairman of the Securities Commission Malaysia

It is my privilege to present the Report of the Growth and Emerging Markets (GEM) Committee, my first since assuming the chairmanship of the GEM Committee in May 2013. I took on the position of the GEM Committee Chair during a time when emerging markets were the focus of global attention as international markets reacted to the expected tapering of quantitative easing in the US.

Emerging markets have continued to face bouts of market pressure and an increase in short-term volatility across a wide range of asset classes, particularly in countries where macroeconomic and financial imbalances were a prominent concern. Although the impact of these developments has varied depending on the circumstances of each jurisdiction, emerging markets as a whole have been resilient. It is observed that views remain positive on the overall outlook for emerging markets as investors seem to increasingly recognize their sustained efforts at enhancing market structures, operational efficiencies and institutional development, and at strengthening fundamentals. Nevertheless, as emerging market securities regulators, we continue to note and to monitor closely risks associated with the normalization of global monetary policy and international capital flows.

### Repositioning of IOSCO's GEM Committee

A significant development that took place in 2013 during the meeting in Luxembourg was the endorsement by the IOSCO membership of the new Strategic Direction for the GEM Committee. Recognizing the importance of emerging markets in the post-crisis environment, members saw the review as necessary to provide greater focus and direction to the GEM Committee's efforts and initiatives, including promoting greater inclusiveness, strengthening channels of communication and

balancing growth and implementation of regulation. This new Strategic Direction therefore centers on three major thrusts: enhancing regulatory capacity building, providing a more substantial focus on risks and vulnerabilities, and strengthening policy and development work on emerging markets.

The Strategic Direction also included the re-designation of the Emerging Markets Committee (EMC) as the Growth and Emerging Markets (GEM) Committee to better reflect the nature of the markets in which its members operate. Being the largest committee representing 75% of the IOSCO membership, the GEM Committee has a major opportunity to contribute to global discussions and to be a highly visible, effective and inclusive grouping for emerging markets. Further, the repositioning of the GEM Committee occurred at a timely juncture when IOSCO, as an organization, was also recalibrating itself as a key reference point for securities regulation, including for emerging markets.

To provide greater focus and efficiency to its functioning, the GEM Committee created a Steering Committee in November 2013 comprising 16 leading emerging market regulators. The GEM Steering Committee is central to the process of ensuring that the GEM Committee effectively achieves its strategic objectives. Members of the Steering Committee have been assigned a specific portfolio of responsibilities to drive the GEM Committee's core priorities.



## Strengthening regulatory capacity building

In the context of a more connected and open market environment, a major thrust of the GEM Committee is to strengthen the capacity building needs of its members through education and training, and technical assistance. This objective becomes even more critical with enhanced cross-border activity and increased integration of emerging markets within the global financial system.

In meeting the capacity building needs and demands of its members, the GEM Committee organized four Regulatory and Market Development Workshops during the course of the year in the areas of risk-based supervision, financial market infrastructures, commodity markets and challenges in the implementation of International Financial Reporting Standards (IFRS). This was the third consecutive year that these Workshops were organized, and required the GEM Committee to work in close collaboration with the more advanced markets. The Workshops, which take on a very practical and interactive format, have garnered significant interest and participation from the GEM membership.

Following the publication of the IOSCO Report on the *Development of Corporate Bond Markets in the Emerging Markets* in 2011, the GEM Committee, together with the IOSCO General Secretariat, organized two Corporate Bond Market outreach programs in the African/Middle Eastern region and the Asia-Pacific region. The workshops in Mauritius and Sri Lanka were very well received by regulators and industry alike.

Further, the GEM Committee is working closely with IOSCO's Capacity Building and Resource Committee (CBRC) to identify and prioritize the capacity building needs of its members. This required a comprehensive survey and analysis of members' education and training,





and technical assistance needs. The identification of the detailed capacity building needs of emerging markets will assist the CBRC, as it works with the IOSCO General Secretariat to develop relevant capacity building work plans, including the draft projects and the resources required for their implementation.

### **Intensifying the assessment of risks and vulnerabilities**

Another major priority for the GEM Committee is to identify more effectively major risks and vulnerabilities within emerging markets, including the implications of these risks for global financial markets, and for emerging markets in particular. The GEM membership aims to be more forward-looking and proactive in anticipating securities market risks. We see the need to enhance cross-border surveillance and the sharing of information on market flows as paramount for enabling regulators to make more timely and thorough assessments of risks within our markets.

In this regard, the GEM Committee and the GEM Steering Committee have held a series of in-depth discussions and engagements with the IMF and the World Bank and leading global market players on emerging risks and their impact on systemic stability. I am also pleased to report that issues pertaining to emerging markets continue to be deliberated extensively by the IOSCO Board. There is a strong appreciation by the Board that emerging markets and advanced economies have become increasingly interconnected – be it from the perspective of growth, financial linkages or the impact of regulatory reform. Furthermore, the *IOSCO Securities Markets Risk Outlook 2013-14* published by IOSCO in October 2013 contains valuable discussions and insights relating to emerging markets.

I also have the privilege of representing the GEM Committee at the Plenary Meeting of the Financial Stability Board, which met twice in 2013. The discussions at these meetings are critical as emerging market issues are gaining greater prominence on the global financial agenda, thus providing an opportunity for the GEM Committee to play a role in contributing to global regulatory reform efforts and to have a stronger and more active voice in international discourse.

### **Prioritizing policy and development issues**

The GEM Committee represents some of the world's fastest-growing economies, and includes 10 of the G-20 members. It is important therefore to ensure emerging markets have sound and effective regulation that is aligned with international standards, and

promotes investor protection and market confidence. Furthermore, it is critical that issues of primary concern to emerging markets continue to be considered appropriately in global regulatory discussions, at the IOSCO Board and policy committees, as well as at the G-20 and the Financial Stability Board.

To this end, the GEM Committee has been conducting relevant policy work on regulatory issues affecting emerging markets, namely the *Financing of SMEs through the Capital Markets*, as well as joint work with the World Bank on the *Development of Mutual Funds in Emerging Markets*. These reports are expected to be published in 2014.

Through the GEM Committee, IOSCO also collaborated with the international standard-setter for the Islamic financial services industry, the Islamic Financial Services Board (IFSB), to publish a book in September 2013 on *Disclosure Requirements for Islamic Capital Market (ICM) Products*. The book is based on the discussions of a joint IOSCO-IFSB Roundtable held in Kuala Lumpur the previous year. The book examines the need for international regulatory standards and best practices relating to disclosure requirements for ICM products. In particular, it analyzes the issues, risks and challenges arising from inadequate disclosure in the area of Sukuk and Islamic collective investment schemes, and seeks ways to strengthen disclosure standards in relation to these instruments.

Recognizing the importance of capital markets in providing long-term financing to drive economic growth, I am co-chairing with the Chair of the Ontario Securities Commission, Howard Wetston, the IOSCO Board Task Force on Long Term Financing. This initiative is significant for emerging markets given their growing need for long-term financing to facilitate domestic capital market development, particularly where long-term financing may be at a relatively nascent stage. As long-term investment depends heavily on investor trust, and policy and regulatory certainty, the work is expected to provide a better understanding of the issues and the challenges facing the capital markets, and the opportunities for growth in this area, as well as how innovation can contribute towards long-term financing.

### **Looking ahead**

As the world shifts towards more market-based financing, the significance of emerging markets is expected to grow, along with potential opportunities for capital-raising and investment in these markets. It is therefore important that we continue to adopt the ethos of inclusiveness and work in close partnership with the global regulatory community and market players in strengthening the resilience of our markets.

