



Report from the Chair of the Growth and Emerging Markets (GEM) Committee

Ranjit Ajit Singh

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

I am pleased to present this year's report of the Growth and Emerging Markets (GEM) Committee. The Committee's overarching priorities continue to focus on developing greater regulatory capacity for members, deepening regulatory and policy work on emerging market issues and strengthening risks and vulnerabilities assessments of emerging markets.

There continues to be significant interest in the efforts and initiatives of the GEM Committee, the largest committee within IOSCO, with its membership growing from 90 members in 2014 to 104 members in 2016. A review was conducted in 2016 on how to strengthen the GEM Committee's contribution to and involvement in IOSCO policy work. This includes proposals to address issues relating to the leadership and membership of Board committees, the identification of issues and priorities for the GEM Committee and their incorporation throughout IOSCO's work.

Some of the measures that have been taken by the GEM Committee to strengthen the inclusiveness of the membership throughout 2016 include an annual GEM survey on regulatory issues and priorities of emerging market members and the development of a GEM register for leadership positions on Board policy committees or participation in these relevant committees. Following the conclusion of the Board committee elections in September 2016, emerging market representatives held 30% of committee leadership positions, compared to only 15% in 2014. This is a testament to our concerted efforts to increase the participation and contribution of emerging markets at the Board (through the two additional GEM seats in 2014), as well as at the technical and policy level. It is also a reflection of the expertise of GEM members and their strong capabilities to take on these leadership roles.

Enhancing capacity building for emerging market regulators

Capacity building has been a major focus of the GEM Committee and becomes all the more critical in the context of a challenging market environment. Regulators will need to continue to exercise strong regulatory oversight and to remain vigilant against market stresses. The GEM Committee has been working together with the IOSCO General Secretariat on several initiatives to provide greater support to the wide spectrum of emerging market members, including strengthening the cross-sharing of expertise. This includes a Help desk, and an online tool for sharing practical and organizational information among GEM regulators.

The Help desk is intended to act as one-stop facility that members can call upon on an ad-hoc basis or when they require a sounding board or a prompt response in the event of a major market incident (e.g., market stress or extreme market volatility). It can also be used as an ongoing facility to channel general regulatory discussion topics or questions to IOSCO and fellow regulators. The IOSCO General Secretariat will play a key role in facilitating relevant responses from members.

The online tool, which is led by the GEM Vice Chair, Marcos Ayerra, is intended for sharing practical and



organizational information among GEM regulators. This includes the sharing of operational data and practices, market data, legal frameworks etc., to facilitate efforts to develop and implement effective regulatory frameworks for securities regulation.

Further, as part of the GEM Committee's efforts to strengthen the regulatory capabilities of its members to manage risks, the Committee conducted a Workshop on cyber-resilience during its 2016 Annual Meeting and Conference, hosted by the Financial Services Authority Indonesia. The exercise, which included an interactive cyber-attack simulation, was the first of its kind for securities regulators globally, and was designed by IOSCO in collaboration with the Bank of England. The Workshop attracted participants from

over 40 jurisdictions and helped raise awareness of the role of securities regulators in the event of a potentially systemic cyber-attack and of issues relating to interactions with other stakeholders and authorities, public communication and cross-border information sharing.

In addition, to further facilitate market developmental efforts, a GEM Conference themed *Optimising Innovation and Strengthening Governance in Emerging Markets* was held during the GEM annual meeting. Areas discussed during the Conference related to the policy work being undertaken by the GEM Committee, including SME financing, digitalization and corporate governance where there was an excellent line up of international speakers.



Complementing these initiatives, IOSCO launched its Asia Pacific Hub located in Kuala Lumpur and hosted by the Securities Commission Malaysia (SC Malaysia). The launch was held in conjunction with the SC Malaysia's annual GEM Regulatory Conference. The IOSCO Asia Pacific Hub will focus on delivering capacity building activities that will allow IOSCO to provide more targeted solutions to address the needs and challenges of members in the region. It will also allow IOSCO to better leverage on the regional experience, expertise and infrastructure within its membership to foster greater innovation within capital markets, and enhance regional connectivity and inclusiveness.

Deepening regulatory and policy work

In 2016, the GEM Committee completed two reports. The first was related to *Fintech in Emerging Markets* and was integrated into *IOSCO Fintech Overview Report*; the second report was on *Corporate Governance in Emerging Markets*.

In relation to Fintech, the work conducted by the GEM Committee indicated that Fintech is encouraging greater financial inclusion within many emerging markets. Fintech applications are developing at an increasingly fast pace, creating opportunities for markets to achieve better investor outcomes, such as greater access for previously underserved segments

of the population to modern portfolio, theory-based investment at lower cost; easier comparability of investment options, costs, fees and investment returns; greater investor choice and diversification; and greater financial inclusion. The latter is especially true in emerging markets where, due to the lack of legacy infrastructure, Fintech is often able to leapfrog current technology. Given the significant potential of Fintech for emerging markets, the GEM Committee's work highlights the importance of technology-neutral regulatory frameworks and graduated regulatory approaches to manage the transition in a digitalized environment. Another useful takeaway of GEM Committee work was the importance of addressing information asymmetries.

The report *Corporate Governance in Emerging Markets* focuses on three key areas: Board composition and responsibility; remuneration and incentive structures; and risk management and internal controls. The report reflects a general alignment of regulatory frameworks in emerging market jurisdictions with the recommendations of the revised G20/OECD Principles of Corporate Governance. It also indicates there is broad agreement on the direction regulators should take to improve the quality of Boards, ensure that remuneration and incentive structures work to create long-term value and improve risk management frameworks and internal controls.



Following the publication of the Corporate Governance Report, the GEM Committee held a Corporate Governance Dialogue with institutional investors in London in June 2017. The intention is for the Committee to engage more closely with key stakeholders on investment issues affecting emerging markets, including those relating to corporate governance.

In 2017, and in line with IOSCO's overall priorities, the GEM Committee will be commencing work on *Sustainability in Emerging Markets*. This is an area that has been gaining significant momentum across global markets, and stems from the need to scale up financing and investments to support sustainable development of economies and encourage transition to a low carbon economy. Further, growing population and rapid urbanization have spurred greater efforts to promote sustainability within emerging markets. The GEM Committee's work will focus on reviewing the role that securities regulators play in capital formation and sustainability.

Strengthening assessment of risks in emerging markets

The GEM Committee continues to engage closely on global developments and their impact on emerging

markets. These efforts have become all the more important given the significance of emerging markets in the global economy and geopolitical changes in 2016 that brought uncertainty to the global regulatory system and unpredictability in the macro-policy environment.

The risks of cyber security threats, particularly to critical financial market infrastructure and their potential impact on the broader economy, continue to be a concern, particularly as markets shift towards a more digital economy at an increasingly faster pace.

Regular engagements with leading global industry players and international organizations through risk roundtables and discussions are therefore a regular feature of the GEM Committee meetings, with a view to helping members better understand the emerging risks and threats to markets.

Finally, let me express my appreciation to the GEM Vice Chairs, Leonardo Pereira and Marcos Ayerra, members of the GEM Steering Committee and the IOSCO Secretary General, Paul Andrews, and the General Secretariat for their significant efforts and contributions. I am also grateful to the IOSCO Board Chair, Ashley Alder, the IOSCO Board Vice Chair, Jean Paul Servais, and Board members for their continuous support of the GEM Committee.