Impact On and Responses of Emerging Markets to the Financial Crisis

Final Report

EMERGING MARKETS COMMITTEE
OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

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EXECUTIVE SUMMARY

1. The IOSCO Emerging Markets Committee (EMC) Chairman's Task Force on the Current Financial Crisis (the Task Force) was formed to review the impact and implications of the financial crisis on emerging markets, and the measures introduced by the emerging market regulators in response to the crisis. A Survey questionnaire (Survey) was circulated to all EMC jurisdictions to seek responses on their major regulatory and supervisory issues, in addition to seeking specific feedback on the sources of financial contagion in their jurisdictions and the measures taken to reduce instability.

2. This Consultation Report (Report) provides a relatively broad reflection of the experiences of EMC members in responding to the financial crisis given the different levels of development and the degree of the impact of the crisis on their markets. The Report also seeks to establish the key regulatory and supervisory challenges identified by securities regulators in the current environment.

3. The responses suggest that the impact of the current crisis on emerging markets has manifested itself in different ways, depending on a number of factors relating to the depth and development of the various capital markets. Nonetheless, these trends are indicative of the extent to which emerging markets as a whole have become much more integrated within the global financial system, and therefore may be increasingly exposed to systemic risk[1] and shock transmission in turbulent times.

4. Following from the review of the information provided by respondents, a number of findings have been identified for consideration and where further work may be necessary.

5. Firstly, emerging markets are now more interlinked and exposed to more risks, both from within and outside the financial system. Hence, there is a need for greater global inclusion of emerging market authorities on regulatory matters, from standards setting to global supervisory activities, as well as a need for greater information sharing among regulators. The recent pronouncement of the G-20 Summit on 2 April 2009 takes on greater significance and may serve to focus the manner in which not only emerging markets, but all securities markets respond to the current crisis.

6. The Report findings also highlight the need to strengthen regulatory and investor protection frameworks, as well as effective prevention and management of systemic risks and instabilities in the emerging markets. In this context, it is increasingly apparent that emerging markets must actively cooperate with developed jurisdictions in international financial coordination and have a greater voice in the decision-making processes in both regulatory issues as well as in identifying relevant responses to a crisis. The International Organization of Securities Commissions, in particular, may play a larger role in facilitating necessary technical assistance and training programmes in key areas such as market

[1] For the purpose of this report, the word "systemic risk" includes both so-called micro-prudential issues (related to the financial soundness of market intermediaries) and macro-prudential issues (ie, stability of the financial system as a whole).

surveillance, intermediary supervision and systemic risk assessment, as well as through forming specific task forces to undertake thematic work.

7. As domestic financial systems develop and become more complex, so too must their regulatory frameworks; strong supervision and investor protection, and effective enforcement are key building blocks. Traditional dichotomies that have become outdated must be addressed; legacy paradigms must be revised and new regulatory frameworks must conform to international principles. More specifically, emerging market regulators and supervisors must protect consumers and investors, support market discipline, avoid adverse impacts on other jurisdictions, reduce the scope for regulatory arbitrage, support competition and dynamism, and keep pace with innovation in the marketplace.

8. As capital markets are now a key component of modern financial systems in facilitating growth, governments should not overlook capital markets in their efforts to modernise and develop their economy. However, capital market development must be properly sequenced to manage the risks of liberalisation in order to maintain overall stability as macroeconomic conditions and financial systems have become more interconnected.

CHAPTER 1: BACKGROUND, MOTIVATION AND APPROACH

Background and Motivation

9. The initial focus of the global financial crisis in 2007-08 was largely on developed market jurisdictions as emerging markets were viewed as having relatively lower exposures to sub-prime assets. However, as the crisis deepened, emerging markets too were affected by the impact of worldwide de-leveraging and heightened risk aversion triggered by the global liquidity crisis and were subjected to extreme price volatility.

10. Against this backdrop, the Task Force was established in October 2008 to assess the impact and implications of the crisis on emerging markets, identify relevant regulatory issues and provide recommendations for further work.

11. It is hoped that the Task Force's analysis and recommendations will prove useful, not only to securities regulators in emerging markets but also, to international policy makers and international organisations focused on identifying and implementing measures to combat the crisis and to restore stability and encourage confidence and growth in the market.

12. The importance of effectively capturing and communicating the perspectives and views of emerging markets in the development of policy and in action plans to combat the crisis has been repeatedly highlighted by the EMC. This was raised at the meeting of the G-20 Finance Ministers and Central Bank Governors on 14 March 2009 as well as at the G-20 Summit meeting in Washington DC on 15 November 2008. On both occasions, the EMC stressed the need to reform not only the Bretton Woods institutions, but also the Financial Stability Forum (FSF)[2] and other major standard setting bodies to include consultation of more emerging economies, to ensure they can more adequately reflect changing economic weights in the world economy with a view to increasing these institutions legitimacy and effectiveness.

13. In connection with the above, the EMC had expressed to the FSF the need to incorporate emerging market views within the Supervisory Colleges regulating large complex financial institutions. The Chair of the EMC also sent a letter to the G-20 heads of government meeting held on 2 April 2009, highlighting the impact of the crisis on emerging markets and underlining the importance of closer cooperation and coordination between the advanced and developing markets.

14. The Task Force was led by Guillermo Larraín, Chair of the Superintendencia de Valores y Seguros of Chile and the Chairman of the EMC and Zarinah Anwar, Chair of the Securities Commission of Malaysia and Vice Chair of the EMC[3]. The responses of EMC members were collected through the circulation of a Survey as detailed below, which responses form the basis of the conclusions and recommendations of the Task Force.

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[2] The Financial Stability Forum was expanded into the Financial Stability Board as of April 2, 2009

[3] A list of the Task Force members is attached at Appendix 2.

15. The Report is organised into five parts. The first chapter sets out the background and motivation for the Report, and the approach taken in the development of the Report. The second chapter details the conclusions reached by the Task Force following the examination the results of the Survey and the recommendations proposed. The third chapter provides a summary and review of the responses received. The fourth chapter analyses the Survey results with a view to highlighting the implications of the current financial crisis on securities regulation within emerging markets and to identify key trends in crisis and non-crisis related regulatory policy development across emerging markets. The fifth part of the Report contains detailed summary results and supplemental information in Appendices.

16. While the Task Force drew the results for this Report from member responses to the Survey, in order to maintain the confidential nature of the information received, the actual results have not been annexed to this report. In addition, in highlighting the issues noted, no specific concern has been linked to any jurisdiction. In certain limited circumstances the region from which the issue was submitted has been highlighted to provide a perspective on diversity of input.

Approach of the Survey

17. In designing and adopting the mandate of the Task Force, it was agreed that the most effective mechanism to collect the necessary feedback from EMC jurisdictions would be through a Survey that could be circulated and responded to in electronic form.

18. The form and content of the Survey (as attached at Appendix 5) was guided by considerations on what kind of questions would be most effective to best capture the impact of and response to the current crisis on the emerging markets, the number of jurisdictions that would be covered, and the timelines for the circulation, feedback and consolidation of findings.

19. In circulating the Survey to all EMC members, the intention was to collect as many responses from emerging markets as diverse as possible in terms of the size of market capitalization and Gross Domestic Product (GDP) to draw a good cross-section of results representing emerging markets. The Task Force collected statistical data on GDP, market capitalization and the ratio between the two, because the latter is a useful proxy measure of the stage of development of financial markets and may permit a linkage between the responses to the Survey and the stage of financial development of jurisdictions or geographical areas. These statistics were obtained as at December 2007 due to data availability and to provide a consistent baseline measure (indicative of circumstances before the financial crisis).

20. The window for the dispatch of the Survey and reception of responses initially spanned from 11 December 2008 to 16 January 2009. However, the Task Force received 11 additional Survey responses in an extended period ending on 23 January 2009.

21. The Survey was divided into 2 key sections made up of permanent questions, focusing on general observations on jurisdictional developments regarding regulatory and supervisory issues, and topical questions, focusing, in the present case, on the impact of the financial crisis and source of instability and financial contagion.

Permanent Questions:

22. The permanent questions, Questions 1-4-Regulatory and supervisory issues (previous & next 12 months), were developed to identify the key issues that affected emerging market regulators and possible structural changes in the relevant issues as a result of the crisis and in the following months.

    Question 1 sought responses on the major regulatory and supervisory issues faced in the last 12 months in each responding jurisdiction.

    Question 2 requested respondents to rate the importance of their responses to Q1 between 1 (low importance) and 5 (high importance) in terms of importance and magnitude to financial markets.

    Question 3 requested responses on the major regulatory and supervisory issues that jurisdictions considered they will face in the next 12 months.

    Question 4 required respondents to rate the importance of their responses to Q3 between 1 (low importance) and 5 (high importance) in terms of importance and magnitude to financial markets.

Topical Questions:

23. The topical questions, Question 5 - Sources of instability and financial contagion, Question 6 – Measures to reduce instability and financial contagion and Question 7- Other issues, were developed to assess the impact of the crisis on the emerging markets and their responses to that impact, thereby allowing the implications of the current crisis for securities regulators in emerging markets to be drawn out as well as to provide a basis for making recommendations for further work.

24. Question 5 required respondents to identify the most important sources of instability and financial contagion for their jurisdiction. As a guideline, 12 factors that had been highlighted in international discourse on the crisis were set out including: speculation in derivatives markets (including swaps); repatriation of capital by foreign investors; lack of hedging possibilities; and measuring and assessing exposure to risky assets. For each source of instability and financial contagion identified, respondents were asked to rate its importance on a scale of 1 (not important) to 5 (extremely important). In addition to the 12 factors highlighted above, jurisdictions were also requested to "indicate (if any) other sources of instability not listed above, including their relative importance" to ensure that respondents would not be unduly restricted in communicating their particular experiences.

25. Question 6 sought responses on the measures being taken by each jurisdiction to reduce instability. In this case, eight measures were set out to provide jurisdictions a guide on the various measures being taken around the world. These included restricting short selling or making other market interventions; capital flight controls; exchange rate intervention; and exceptional financing from central banks. In addition to the above eight factors, jurisdictions were requested to indicate any other measures they may have taken which were not included in the list. In the case of Question 6, unlike prior questions, jurisdictions were not requested to provide a relative ranking of each of the measures taken, whether on a scale of importance, nor in respect of effectiveness.

26. Question 7 gave respondents an opportunity to provide "any other relevant issues not mentioned in questions 1 to 6".

Summary of Respondents

27. A total of 38 responses to the Survey were received. The responding jurisdictions represent approximately 68% of emerging markets GDP and a similar relative number in terms of the market capitalization of these jurisdictions[4]. Hence, the sample in "value" terms represents an important share of emerging markets. The following table summarizes and classifies the jurisdictions included in the sample. The geographical areas are based on IOSCO's regional classification.

Table 1 Sample jurisdictions

INTERAMERICAN	AFRICA MIDDLE EAST	ASIA PACIFIC	EUROPE
Argentina	Dubai (DFSA)	China	Czech Republic
Bermuda	Egypt	India	Hungary
Brazil	Ghana	Indonesia	FYR Macedonia
Chile	Israel	Malaysia	Montenegro
Costa Rica	Morocco	Mongolia	Poland
Colombia	Nigeria	Pakistan	Romania
Ecuador	Oman	Papua New Guinea	Slovenia
Uruguay	South Africa	South Korea	Turkey
	Tunisia	Sri Lanka	
	United Arab Emirates	Taiwan	
	WAMU	Thailand	

Notes: Full details of the jurisdictions that make up each of the 4 IOSCO Regional Committees indicated above are available from the IOSCO website www.iosco.org
Sample Size: 38 jurisdictions

4 Source: IMF and Bloomberg for December 2007 (in the pre-crisis period).

CHAPTER 2: CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

General Conclusions

28. The recent global credit crisis has shown that the international financial system has changed fundamentally. Financial activities and products have become more complex, global and inter-connected. Thus, financial disruptions have become more easily transmittable and less localised as a result of greater global linkages. They have also become more frequent and characteristically involve contagion across markets and across national boundaries. This may result in an abrupt reduction or loss of access to global capital markets, and will have adverse economic repercussions for emerging and developed markets alike.

29. While the direct exposure of emerging markets to sophisticated markets and products has been typically low, their exposure to the secondary impact of financial disruption may be just as high, if not higher, through global contagion. Indeed during the credit crisis, the impact of financial distress was evident in emerging markets – especially with regard to macroeconomic factors – even though the financial crisis primarily originated elsewhere.

30. As the credit crisis intensified, emerging markets were faced with an adverse feedback loop between the financial system and the broader economy. The focus of emerging market regulators increasingly became that of managing the impact of economic shocks and slower growth of capital markets. Sources of market instability included the repatriation of capital by foreign investors, withdrawal of international lines of credit and exchange rate volatility. While none of the jurisdictions experienced or reported any systemic disruption and financial markets remained orderly, emerging market regulators recognized the need to strengthen oversight and supervision of market participants and widen the scope of regulatory oversight.

Reconfirmation of Importance of Free Trade and Market Function

31. The open market and pro-investment policies adopted by many jurisdictions to tap the international capital markets have been key drivers of the growth of emerging capital markets. However, the large scale repatriation of capital as a consequence of current liquidity constraints have been a significant source of instability to these economies.

32. With the increasing spread of the crisis, and as a consequence of greater integration, emerging markets are experiencing very similar challenges to those in developed economies which is adding to the current downturn in the global economy. These stresses have included rising price index, interest rates, unemployment, decreasing international trade, and sharply rising exchange rates. These economic shocks have also been accompanied by highly volatile securities markets and illiquid securitized products.

33. The results indicate that emerging market regulators tried to reduce the potential for financial contagion by intervening in securities markets in addition to direct monetary or fiscal authority's intervention. However, it is clear that national interventions on even the largest scale, as evidenced in developed economies, have not been sufficient to effectively address the multifaceted challenges arising from the crisis. This further confirms that concerted and coordinated action across both developed and emerging markets will be necessary to identify avenues to restore global stability.

34. In the context of the instability cited above, it will nonetheless remain important to note the role of the emerging markets in global development. This was noted by the G-20 Summits' recent declaration that emerging markets and developing countries have been the engine of recent world growth. Therefore, the free trade and market orientated principles are values that emerging markets as well as the advanced economies should continue to promote.

Strengthening Financial Regulation and Compliance with International Standards

35. In the natural course of developing their markets, emerging market regulators were conscious that regulatory reform would be necessary to pursue their own objectives of further market development and in order to learn from the lessons of the impact of the crisis in developing economies. Therefore, emerging markets had already intended to undertake substantive legal and regulatory reform prior to the spread of the crisis.

36. However, as the crisis spread into the emerging markets, these legal reform efforts have become an all the more significant priority, with regulators appreciating the need to strengthen regulation over market participants in light of market volatility and resultant potential for systemic instability. In addition, in the more advanced emerging jurisdictions there may also be a move to mirror moves in developed jurisdictions to introduce close oversight over previously unregulated entities and products. The crisis has also raised the urgency for jurisdictions to enhance their regulatory frameworks in line with internationally agreed best standards that a global financial system requires. In this regard, the G-20 Summit recommended the boundaries of regulatory frameworks should be reviewed periodically within national jurisdictions, in light of financial innovation and broader trends in financial system, based on internationally agreed methodologies and tools. Further, all G-20 members have committed to undertake an assessment of their jurisdiction by way of a Financial Sector Assessment Programme and to publish their respective conclusions. This new focus is very much in line with the strategic direction of IOSCO, whose significant role as an international standards setter has been reiterated by the G-20. IOSCO intends to concentrate, and seek further support from members for projects to assist developing markets to implement the IOSCO Principles.[5] Members will also be called upon to support the ongoing review of the IOSCO Principles to ensure they are able to address the challenges the financial crisis has highlighted. To date, on the one hand, the IOSCO General Secretariat has been working to identify and respond to requests for technical assistance (TA), through which member jurisdictions will be able to proactively adopt the best

[5] The IOSCO Objectives and Principles of Securities Regulation (http://www.iosco.org/library/pubdocs/pdf/IOSCOPD154.pdf)

standards. On the other hand it has been making efforts to seek resources from donors such as the World Bank, Asian Development Bank and African Development Bank as well as complementary assistance from member jurisdictions.

Promoting Market Integrity

37. Emerging markets experienced relatively low instances of market manipulation, insider trading, and frauds during the financial crisis. However, emerging markets regulators have recognized the need to strengthen their oversight and supervision over market participants including speculative investors, intermediaries, and credit rating agencies in anticipation of a rise in misconduct and abuse given deteriorating global financial conditions. These efforts will need to be complemented by strong and effective enforcement regimes supported be adequate regulatory resources. Emerging market regulators need to look into strengthening their investor protection regimes given that the fragile markets could be easily vulnerable to attack from manipulators as a result of the uncertainties over global capital market developments.

38. At the core of efficient capital markets is the need for investor confidence in the transparency and fairness of the markets in which they are participating. In the event of the loss of this investor confidence, the markets cease to be able to play their role of bringing together companies seeking to raise capital and the investors who are looking for a transparent mechanism in which to maximize the returns on their investment.

39. When markets lose investor confidence, however, the companies will pay much greater premiums to raise the funds thereby undermining their investment potential. Therefore, promoting market integrity through raising investor confidence promotion is critical for continued economic development.

International Cooperation and Coordination

40. The key issue is that the impact of the crisis should not result in markets seeking to move away from the highly inter-connected nature of modern capital markets, but instead greater attention should be placed on using cooperation and coordination to reduce the potential risks of contagion from this interconnectedness to ensure that the international capital markets continue to grow and develop.

41. In order to maximize the opportunities for regulatory cooperation and to reduce the instances of regulatory arbitrage, there must be concerted efforts by all jurisdictions to review their legal and regulatory frameworks in line with the best practice standards highlighted by the IOSCO Principles. In this regard, it is strongly recommended that the IMF and the World Bank place particular focus on the assessment of IOSCO Principles through their Financial Sector Assessment Programme (FSAP). This, in conjunction with the sustained support for the IOSCO Principles Assessment Programme, will provide jurisdictions with the necessary support in ensuring that as they develop disclosure and supervision standards, they do so in line with internationally accepted best practice standards.

42. In conjunction with the above, IOSCO has been promoting compliance with the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and Exchange of Information (MMoU) since it was endorsed by the Presidents Committee in May 2002, thereby trying to increase the level of enforcement-related cooperation and information exchange between IOSCO members. These efforts have also been supplemented by the development of guidelines on carrying out joint cross-border investigations as a step beyond the mere exchange of information, as is being explored by IOSCO Technical Committee's Standing Committee on Enforcement and Information Exchange.

43.

44. IOSCO has set a January 2010 deadline for all member regulators to have applied to become signatories of the IOSCO MMoU or have expressed - through signing its Appendix B - a commitment to seek legal authority to enable them to become signatories to the IOSCO MMoU. .
In addition, IOSCO has made full compliance with the MMoU a precondition for any new memberships of IOSCO. In order to promote further cooperation between its members, IOSCO has recently set up a new Task Force looking into further modalities for improved supervisory cooperation.

Increase Profile and Representation of Emerging Markets

45. The contagion that has been experienced by way of extreme price volatility and shock transmission in emerging markets clearly establishes the extent to which the emerging markets as a whole have become much more integrated with the global financial system. In this regard, emerging markets must actively participate with developed countries in international financial coordination and have a greater voice in decision-making process. It was in this context that the EMC Chairman[6] suggested to the FSF supervisors from emerging countries should be included in Supervisory Colleges because any situation affecting the relevant holding companies represents a systemic risk to markets where that entity controls a significant market share, irrespective of the percentage of the business those markets represent within the group.

Areas for Further Inquiry

46. The current economic slow-down will inevitably undermine existing developmental initiatives and weaken the global growth engine especially in jurisdictions with illiquid and underdeveloped markets. Therefore, further work should be carried out to identify changing the prioritization and acceleration of policies to enhance regional integration in order to strengthen resiliency and promote growth.

[6] Mr. Guillermo Larraín, Chair of the Superintendencia de Valores y Seguros of Chile

47. As we experienced in the advanced economies' examples such as Lehman Brothers and Merrill Lynch, the emerging market regulators must prevent excessive leverage and require buffers of resources to be built up in good times as the G-20 Summit leaders pointed out in the 2 April, 2009 Declaration. In strengthening financial regulation, we must promote propriety, integrity and transparency; dampen rather than amplify the financial and economic cycle; reduce reliance on inappropriately risky sources of financing; and discourage excessive risk-taking. Emerging market regulators and supervisors must protect consumers and investors, support market discipline, avoid adverse impacts on other countries, reduce the scope for regulatory arbitrage, support competition and dynamism, and keep pace with innovation in the marketplace.

48. Together with the above, emerging market regulators should improve investors' awareness because investor education assists regulators in protecting investors by maximizing the regulator's limited resources. In particular, considering the relatively lower development status of capital markets, it will assist investors to make more informed investment decisions as the securities industry becomes more complex with more unregulated entities and new products.

49. Having more specific regard to the range of responses received to the Survey, it is clear that further work and investigation will be required in a number of areas to allow for a more complete picture of the impact of the crisis to be developed with a view to ultimately - guiding responses to and hopefully mitigating the negative consequences of future crises. Some of the areas for such further inquiry include:

    1. Potential reviews of how effective the intervention measures such as trade and market halts and circuit breakers were in the context of a financial crisis where price volatility was not a factor of market fundamentals. In addition, where jurisdictions took the more drastic measure of closing markets, what effects did such closures have on immediate impacts from the crisis and investor perceptions on the respective jurisdictions;

    2. Where jurisdictions responded that they had introduced measures to reduce capital flight, what was the nature of these interventions, and what implications the introduction of these restrictions on capital movements may have on the long term attractiveness of those markets as investment destinations for foreign investors. In addition, how effective were domestic interest rate adjustments in slowing potential for capital flight;

    3. What potential impact will the current crisis, and the contagion that was facilitated by market interconnectivity, have on jurisdictions' perceptions on the role of the capital markets as engines for domestic financing, as opposed to components of the wider international financial markets in the context of regulatory priorities and the integration of counter-cyclical measures; and

    4. Having regard to the role of complex products in the genesis of the crisis, what lessons may be learned and what alternative approaches may be adopted in the

context of effective regulation of Over the Counter (OTC) markets and the introduction of structured and derivative products in emerging markets.

50. It is clear that the above constitute only some of the broad and significant issues on which urgent further work may be required in a bid to better prepare markets to respond to the shocks from the current and future crises.

Context of the Ongoing G-20 Process

51. The ongoing financial crisis has necessitated the leaders of the world's major economies and key international institutions to come together through the G-20 process to identify the collective action necessary to stabilise the world economy and secure recovery and jobs. At its recent the London Summit of 2 April 2009, the G-20 Summit released a detailed statement setting out a number of the key measures that will be necessary to restore global stability. In this context, they called for "the strengthening financial regulation" and "dampen[ing] rather than amplif[ication] [of] the financial and economic cycle" with a focus on the promotion of "propriety, integrity and transparency." The recommendations within this report relating to strengthening financial regulation in line with international best practices and the promotion of market integrity and regulatory cooperation strongly mirror the agenda set forth by the G-20. In addition, in correlation with the G-20 call for "reduce[d] reliance on inappropriately risky sources of financing; and discourag[ing] excessive risk-taking" clear recommendations can be identified on closer and more effective supervision of previously unregulated products and entities.

52. It is envisioned that through the implementation of the various recommendations outlined below, jurisdictions will be in a stronger position to respond to the G-20 directions relating to the "protect[ion of] consumers and investors, support [for] market discipline, avoid[ance of] adverse impacts on other countries [as a consequence of interconnectivity], reduc[tion of] the scope for regulatory arbitrage, support [for] competition and dynamism, and [to] keep pace with innovation in the marketplace."

RECOMMENDATIONS

53. Recent events have made it clear that regulators need to place greater emphasis on managing systemic risk more effectively. This is to ensure that even in the event of a crisis, the impact would not be systemic and that individual failure of market players is contained. Appropriate procedures need to be put in place to monitor sources of systemic vulnerability effectively and manage systemic threats before they intensify. This may be built up through a series of mutual recognition arrangements between countries that are in comparable stages of development or where regulatory equivalence has been determined, or the establishment of regional co-operation frameworks. The structure of such arrangements should allow regulators to consider a wider and more complex set of factors, including the assurance of effective supervisory standards, surveillance operations and regulatory co-operation across the entire scope of financial activity.

54. This Report shows that capital markets are key components of modern financial systems where they facilitate growth in good times and absorb shocks when times are difficult. Therefore governments should not overlook capital markets in their efforts to modernise and develop their economy. Given that the open market and pro-investment policies adopted by many jurisdictions to tap the international capital markets have been key drivers of the growth of emerging capital markets, governments and central banks need to manage the repatriation of capital in the event of a crisis, as liquidity constraints have been a significant source of instability to these economies. Governments, central banks and emerging market regulators need to work together to address multifaceted challenges arising from the crisis – monetary and fiscal, in order to restore stability.

55. It is often said that there is an opportunity in every crisis. In this instance, the crisis affords regulators an opportunity to revisit the design, structure and approach to regulating and developing their financial systems. One positive result of the crisis is a general willingness to examine existing policies and practices, and consider a wide range of alternatives. Better-functioning capital markets would likely have reduced the impact of the crisis on emerging market countries. As domestic financial systems develop and become more complex, so must emerging market regulators enhance their respective regulatory frameworks.

56. Recommendations include the following:

1. **Ensure regulatory framework conforms to IOSCO Principles.** Programmes such as those conducted by the World Bank and IMF can assist in assessing the alignment of national regulatory frameworks against these Principles;

2. **Enhance capacity and review approach to regulation.** Recent events have highlighted problems of regulatory governance and of operational risk in the supervisory processes of national regulators;

3. **Promote greater inclusion of emerging market authorities on regulatory matters.** Emerging market perspectives must be effectively considered in all aspects of international policy development ranging from standard-setting to global supervisory activities;

4. **Strengthen regulatory frameworks in coordination with liberalization initiatives.** Regulators need to ensure adequate financial supervision in line with markets development. For example, higher standards of prudential supervision should be adopted in parallel with liberalization;

5. **Improve prudential regulation and supervision.** Prudential regulation concerning the financial soundness of individual firms needs to be done in conjunction with supervision over how practices at firms may contribute to systemic risk. Rules must also come with appropriate sanctions and responses for deficiencies at critical risk levels; and

6. **Work closely with industry groups.** Industry groups indeed have an important role in dealing with the underlying causes of the crisis and broader market challenges. Regulators and industry bodies need to work together to enhance market efficiency and ensure stable development of financial markets. What is important is that industry groups work closely and openly with authorities to decide on necessary actions to respond to dynamic market conditions and challenges. For example, as part of this work, regulators in emerging markets should examine the actual and potential role of self-regulatory organizations (SROs) in their financial markets.

57. In addition, the Report highlights further work that IOSCO can undertake to enhance its role with regard to:

1. **Assist members to enhance their regulatory capacity.** There are opportunities for IOSCO to take the lead in providing technical training programmes in areas such as market surveillance, intermediary supervision and systemic risk assessment;

2. **Form specific task forces to undertake thematic work.** Aside from technical programmes, IOSCO could also form specific task forces/committees that examine and assess systemic stability, compliance with international standards and best practices, capacity building as well as surveillance, supervision and enforcement. This may include, among others: a study of the viability of circuit breakers, closure of markets, trading halts, and crisis management arrangements; measures to regulate OTC trades and derivatives in emerging markets; and the implementation of risk-based supervision models; and

3. **Facilitate greater information sharing among regulators.** In light of the crisis, the international regulatory regime needs to evolve in order to make it more robust and effective. Immediate emphasis should be on managing systemic or macro-prudential risk. There must be global arrangements to facilitate systemic risk surveillance and the framing of an appropriate response to a major disruption. At both the domestic and international levels, banking, securities and insurance regulators need to co-ordinate their activities and co-operate on joint surveillance of the entire financial system. Early-warning systems as well as appropriate protocols for managing systemic disruptions within one or across several jurisdictions should be considered.

CHAPTER 3: SUMMARY OF SURVEY RESULTS

Introduction

58. This Chapter summarizes the responses that were received from the respondents to the Survey. Detailed tabulations on the frequencies of responses received have been appended to this Report at Appendix 1 for ease of reference. The summary below highlights only the highest frequency responses and therefore reference should be made to the annexed detailed results for a more complete perspective of all responses received.

59. The presentation of the responses is divided in accordance with the manner in which the questions in the Survey were grouped. In this regard, the responses to questions 1 and 2 will be considered together with the results for questions 3 and 4. Thereafter, the responses to questions 5 and 6 will be provided separately and finally relevant additional submissions received pursuant to question 7 will be set out.

Approach to setting out responses[7]

60. There was substantial diversity of responses received to the various questions, therefore it was necessary to develop subject grouping within which similar responses could be consolidated for purposes of developing frequency tables and later in the report analyzing the responses and drawing conclusions.

61. Given the open nature of questions 1 and 2 and questions 3 and 4 which requested jurisdictions to:

    In questions 1 and 3 indicate the 3 major regulatory and supervisory issues they have dealt with in the last and next 12 months respectively; and

    In questions 2 and 4 classify the relative importance and magnitude on financial markets of the identified challenges on a scale of 1 (low importance) to 5 (high importance);

    3 broad categories, 8 sub-categories and 13 specific subject groups were identified. In order to tabulate the actual results as objectively as possible, the subject groups used were strictly confined to the submissions received and operate as summaries of the responses grouped under each one. These headings are not the result of analysis of any of the responses. In preparing the headings, the responses to questions 1 to 4 were reviewed exhaustively to ensure that the group headings would be adequate to address all submissions in both question 1 to2 and questions 3 to 4.

[7] Detailed tabulations of the results to the Survey may be found in Appendix 5.

Table 2 **Summary of categories and subcategories for questions 1 to 4**

BROAD CATEGORIES	THEMATIC GROUPS	SPECIFIC CATEGORIES
SYSTEMIC STABILITY		
	Market impact	Market volatility
		Market interventions (Halts, Circuit breakers, Trading restrictions)
	Systemic impact	Addressing wider economic and market related challenges from Crisis
	Economic impact	Concerns over repatriation of foreign capital
MARKET INTEGRITY		
	Regulatory approach and capacity	Review of market or regulatory infrastructure
		Regulatory framework (Market/Product development) review
		Adoption of specific international best practices
		Strengthened institutional capacity and technical capacity
	Market Abuse	Intensified surveillance/Risk management/ Enforcement
		Intensified surveillance/Risk management/ Enforcement in response to the Crisis
	Governance and Compliance	
	Conduct of Business	
MARKET DEVELOPMENT		
	Market Development	Increased investor education and promote investor confidence
		Impact of country Upgrade on Morgan Stanley Capital International (MSCI) Index

Indications of the specific nature of the responses that were grouped in the above noted categories are indicated below**:**[8]

8 Tabulation of frequencies of responses in line with the 13 specific categories may be reviewed under Appendix 1.

I. Systemic Stability

1. **Market Impact**: This sub-category relates to market conditions e.g. price levels and volatility, trading activity, liquidity, market capitalisation, contagion. It consolidates the following specific group headings:

   a. **Market volatility –** This group includes responses that touched on the following issues:
      i. A broad range of references to concerns and impact over market price volatility.

   b. **Market interventions** (Halts, Circuit Breakers, Trading restrictions) – This group includes responses that touched on the following issues:
      i. Market interventions by way of trading halts, circuit breakers, restrictions on margin and short selling.

2. **Systemic Impact** – This sub-category relates to financial stability e.g. financial soundness of market intermediaries, resilience of trading, clearing and settlement systems and consolidates the following subcategories:

   c. **Addressing wider economic and market related challenges arising from the Crisis –** This group includes responses that touched on the following issues:
      i. A broad range of generic references to the potential for an economic slowdown as a result of the crisis;
      ii. General references to market impact of the crisis without specification of the nature of the impact;
      iii. Concerns over falling export commodity prices;
      iv. Concerns over weakened support for local branch offices of stressed international entities;
      v. Addressing bank liquidity concerns;
      vi. Challenges of valuing illiquid assets;
      vii. Reduced IPO's; and
      viii. Reduced Investor confidence.

3. **Economic Impact –** This sub-category relates to the health of the macroeconomic environment e.g. repatriation of funds, slowdown in economic growth, and lower export growth. It consolidates the following specific group heading:

   d. **Concerns over repatriation of capital.**

II. Market Integrity

4. **Regulatory Approach and Capacity –** This sub-category relates to the regulator's ability to perform its functions effectively and efficiently and consolidates the following specific group headings:

e. **Review market or regulatory infrastructure –** This group includes responses that touched on the following issues:
   i. Review of the jurisdiction of the regulator including removal of jurisdiction overlaps with other entities;
   ii. Review of market infrastructure such as operations and form of securities exchanges or central depository and settlement systems; and
   iii. Introduction of an Auditor Oversight Board.

f. **Regulatory framework (Market/product development) review –** This group includes responses that touched on the following issues:
   iv. Development or review of legal and regulatory frameworks for purposes of:
      1. General review and updating;
      2. Reviewing powers of the regulator and/or compliance with international standards generally including prevention of money laundering);
      3. Review or introduction of rules to govern new products e.g. development of bond markets or securitization, regulation of OTC markets, introduction of private pension funds; and
      4. Development or strengthening of disclosure rules and standards for both intermediaries and listed companies.

g. **Review of regulatory framework in response to the crisis –** This group includes responses that touched on the following issues:
   i. Strengthen Collective Investment Scheme (CIS) oversight: Which includes
      1. Increased oversight over mutual funds and unit trust operations and reporting; and
      2. Measure on improved investor protection in CIS.
   ii. Regulation of Credit Rating Agencies (CRAs) including introduction of regimes or standards; and
   iii. Increased Regulation of OTC Derivatives

h. **Adoption of specific international best practice standards –** This group includes responses that touched on the following issues:
   i. Signature of IOSCO MMoU and implementation of the IOSCO Principles;
   ii. Adoption of International Financial Reporting Standards (IFRS); and
   iii. Introduction of Basle II and European Union Capital Requirements Directive (CRD) Frameworks.

i. **Strengthen institutional and technical capacity –** This group includes responses that touched on the following issues:
   i. Covers the need for additional staff and technical training and equipment of regulator to better execute regulatory functions; and
   ii. Actions to improve capacity of licensees.

5. **Market Abuse –** This sub-category relates to fraud, market manipulation and market misconduct. It consolidates the following specific group headings:

j. **Intensified surveillance /risk management/ enforcement –** This group includes responses that touched on the following issues:
   i. Increasing and strengthening market surveillance procedures and on site and off site inspections and assessments of compliance with regulatory requirements by intermediaries as well as market players;
   ii. Development or refinement of risk management and risk based supervision systems to strengthen surveillance activities; and
   iii. More proactive enforcement action in the event of identification of misfeasance either via administrative intervention or civil/criminal sanction.

k. **Intensified surveillance /risk management/ enforcement as a result of the Crisis –** This group includes responses that touched on the following issues:
   iv. Increased surveillance and inspections to identify potential liquidity and risk exposures arising in intermediaries as a result of the crisis including:
      1. Assessment of intermediary internal controls on exposures;
      2. Portfolio management;
      3. Market exposures (liquidity and credit) due to unstable market performance; and
      4. Identification of market abuses.

6. **Governance and Compliance –** This sub-category covers issues relating to investor protection, shareholder rights, transparency and corporate disclosure.

7. **Conduct of Business –** This sub-category relates to professionalism and conduct of market intermediaries in relation to their customers.

III . Market Development: This covers issues relating to deepening and broadening of capital markets, including regulatory reform and rule changes to facilitate the establishment and growth of markets, product innovation etc. It consolidates the following specific group headings:

l. **Increased investor education and promoting investor confidence**

m. **Impact of country upgrade on MSCI Index**

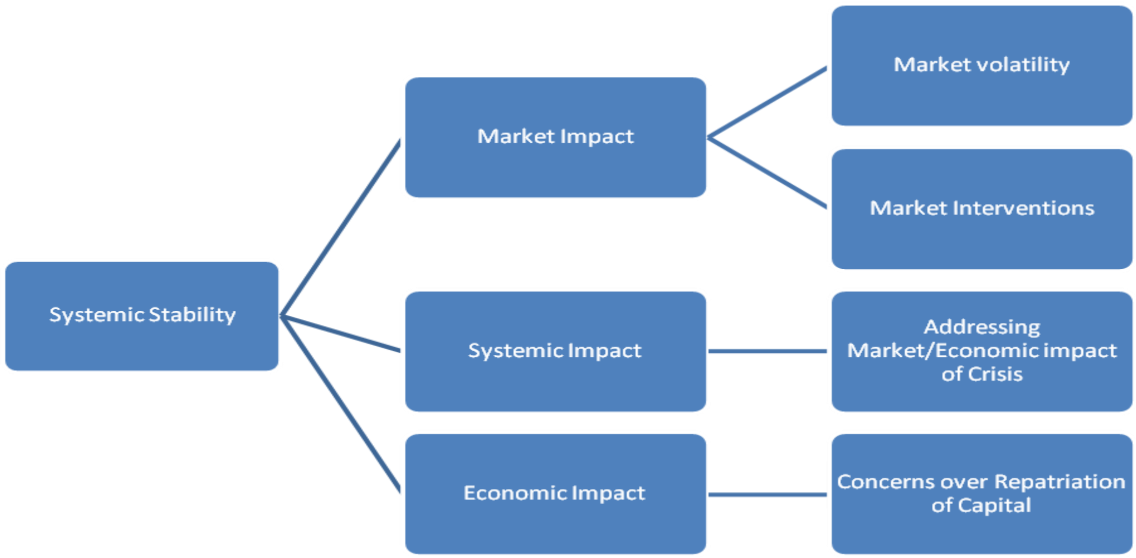

Figure 1 Hierarchy of Systemic Stability related groupings

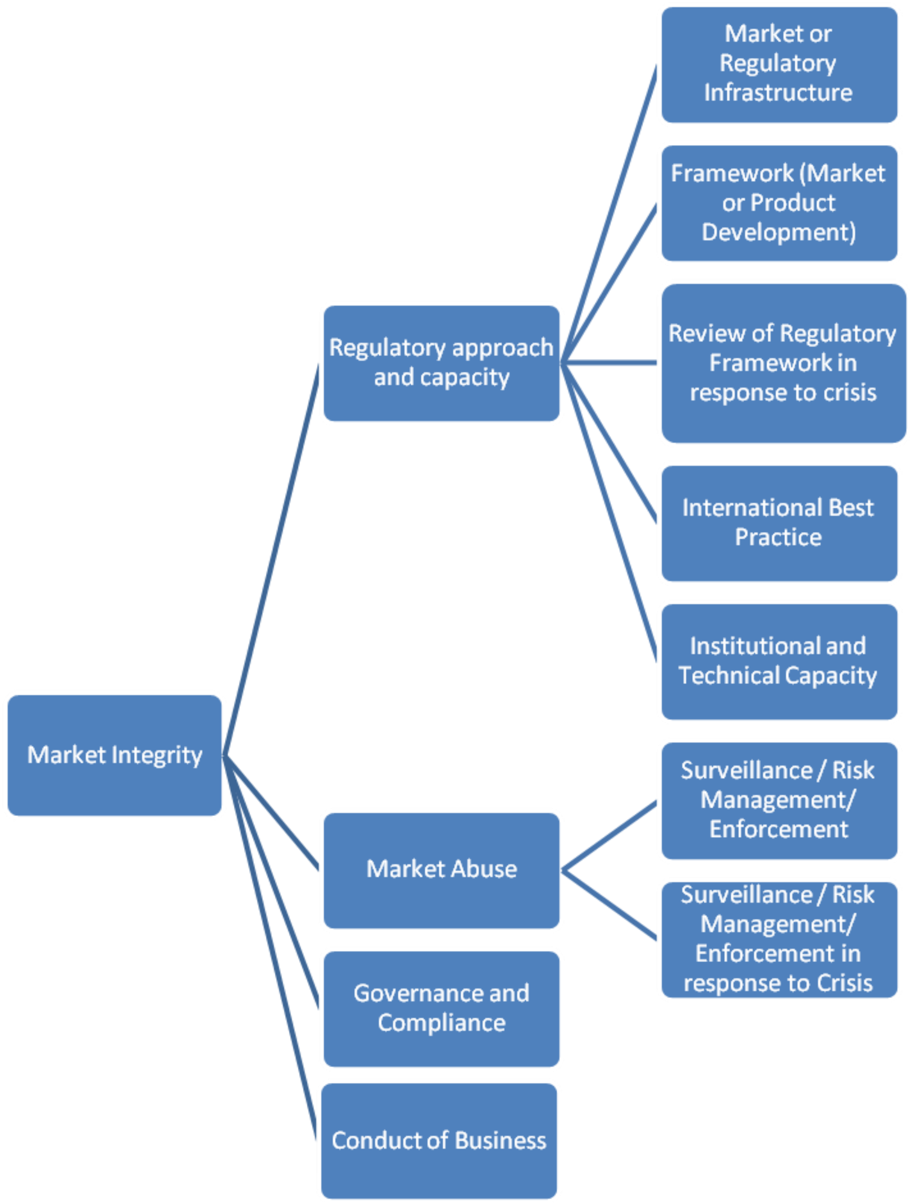

Figure 2 **Hierarchy of Market Integrity related groupings**

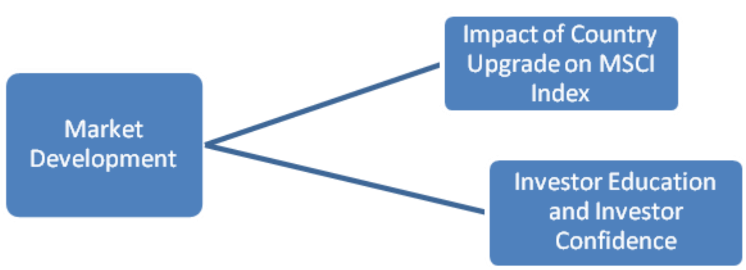

Figure 3 **Hierarchy of Market Development Categories**

62. In order to establish the level of importance or of lesser importance attached to responses, the grading scale of 1 to 5 was broken into 3 ratings categories: 1 to 2 (low importance), 3 (medium importance) and 4 to 5 (high importance). It should be noted that the data presented focuses on the number of times a single issue within any single subject grouping was given a particular importance grading. Therefore, where a single jurisdiction noted three issues that could be grouped under a single heading, each such reference and the particular rating given have been captured separately.

Key Regulatory and Supervisory Issues before the Onset of Widespread Global Financial Turbulence

63. In identifying the regulatory and supervisory challenges and issues of significance to their financial markets in the last 12 months, respondents reported a strong focus on strengthening of their legal and regulatory frameworks with a concentration on both the developing and refining their regulatory powers as well as to facilitate the introduction of new products. In this context a significant number of respondents noted the need to review the market or regulatory infrastructure which included reviewing the mandate of their supervisors to remove overlaps in jurisdiction with other national regulatory entities as well as the development of infrastructure such as central depository systems and the shortening of clearing and settlement cycles.

64. This was complemented by a substantial focus on the need to review and strengthen the rules relating to market surveillance and the need for more proactive enforcement action. It was noted by a number of respondents that they had been experiencing challenges with misfeasance by intermediaries which required a review of their approaches to risk assessment and management for more effective supervision as well as quicker and more consistent enforcement action. In those jurisdictions that did not report significant impact of the crisis in the 12 months prior to the circulation of the Survey, they generally reflected a focus on market integrity as well as market development.

65. While the general view was that emerging markets were not as affected by the financial crisis in its early stages, the Survey responses indicate that some emerging market regulators had begun to experience the economic and market shocks and related systemic impacts that have come to be associated with the later stages of the crisis. These ranged from dealing with the consequences of the crisis on international intermediaries operating in their jurisdictions, to responding to market price volatility and contending with the economic slow-down from decreased demand or deteriorating terms of trade.

Table 3 **Regulatory and supervisory issues faced by emerging market regulators in the 12 months prior to December 2008**

THEMATIC GROUPS	(No. of responses)
Systemic Impact	18
Governance and Compliance	17
Market Impact	17
Market Development	15
Regulatory Approach and Capacity	11
Conduct of Business	9
Market Abuse	8
Economic Impact	5

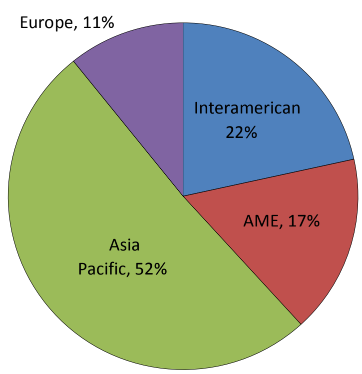

Figure 4 **Proportion of respondents indicating "systemic impact" issues as high importance (by Region)**

Table 4 Sample of responses relating to Systemic Impact[9]

REGION[10]	RESPONSES RECEIVED
Asia Pacific	"Dealing with the contingencies and financial problems derived from the U.S. financial crisis"
	"The liquidity issues in the capital markets remained one of the major regulatory challenges. The investment/leverage in equities at stock exchanges was heavily dependent on funding from the banks that were pushed to withdraw funds from capital markets due to liquidity crunch triggered because of tight monetary policy of the Central Bank. The crunch caused the default risk for a large number of brokers and members to meet their settlement obligations."
	"The [ ] required securities companies to report their financial status and net capital requirement on a daily basis. Moreover, the [ ] looked into the securities company portfolio to ensure that there are no securities companies affected by holding or investing in mortgage bonds or collateralized debt obligation of problematic foreign financial institutions. The [ ] also closely monitored the quality of margin loan and had conducted stress testing on their capital to ensure that they have sufficient capital for operating their businesses."
	"Relaxing regulation on buy back and mark to market rules to allow listed companies to deal with the crisis."
Africa Middle East	"Approval of new Rules for Trading, Clearing, and Settlement."
	"The global financial crisis has weakened the parent company and home office of many of the firms supervised by the [ ] , lessening their ability to provide financial support to branches and subsidiaries in the [ ] and heightening the importance of fulfilling local business strategies and plans."
European	"Redemptions on money market funds."
	"Impact of current crisis on bond and money markets."
Interamerican	"Market and Credit Risk increase on stock brokers dealers, that could arise as a consequence of the generalized decrease of the securities prices, caused by the financial crisis"

9 All references to responses in this Table and in further sample response tables have been directly quoted from the responses received without amendment or correction.

10 Reference to Regions are based on the 4 IOSCO Regional Committees as referenced in Table 1.

	“Response to financial crisis”

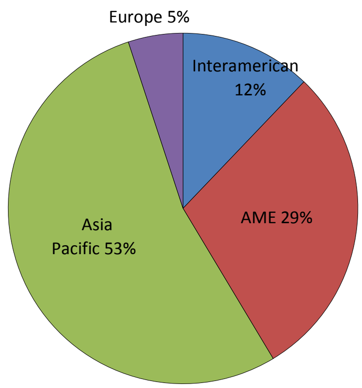

Figure 5 **Proportion of respondents indicating "market impact" issues as high importance (by Region)**

Table 5 **Sample of responses relating to Market impact**

REGION	RESPONSES RECEIVED
Asia Pacific	“Decline in stock market liquidity, particularly given the fund outflows as a result of the repatriation of capital by foreign investors and overall negative sentiment in global markets.”
	“Surveillance and regulations of Cross Border transactions by Companies which are cross-listed elsewhere.”
	“Stabilize the rapidly eroding value of equities in capital markets, lift the continuously falling and depressed market index as well as to bring confidence, capital and credibility back in the markets.”
Africa Middle East	“Market price volatility.”
	“Substantial fall in market capitalisation.”
	“Decline in the price of crude oil in the international oil market.”
Interamerican	“Asset and commodity prices plummeting.”
	“Market price volatility.”
	“The Liquidity Risk that could arise as a consequence of the uncertainty of the real risk rating of debt instruments and hedge of derivatives.”
European	“Decrease in the number of prospectus approved.”
	“Increase market volatility and falling capital markets.”

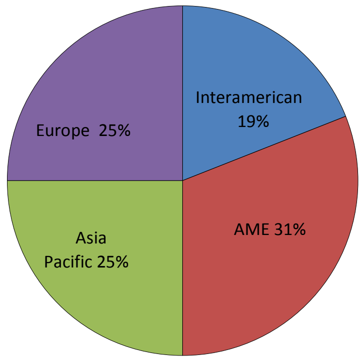

Figure 6 **Proportion of respondents indicating "governance and compliance" issues as high importance (by Region)**

Table 6 **Sample of responses relating to Governance and Compliance Issues**

REGION	RESPONSES RECEIVED
Africa Middle East	"The review of the regulatory framework to comply with international standards."
	"Comply with international best practices by introducing new rules and regulations (Margin, Trading, Research Analysis, IPO-Book Building and dual Listing)."
European	"Increase transparency of financial reporting."
	"Intensify supervision of market participants due to change and broadening of scope of take-overs legislation"
Interamerican	"Convergence and compliance with IFRS"
	"Enforcement issues."
Asia Pacific	"Supervising the risk management, internal control and audits of securities firms."
	"Surveillance, enforcement and disclosure."
	"Ensuring that the activity of corporate control (through mergers and acquisitions and companies going private) does not adversely impact minority shareholders, and that governance and disclosure requirements are fully complied with especially given the strains in the current environment."

Key Regulatory and Supervisory Issues after Global Turbulence became more pronounced

66. In considering the perspectives of emerging market regulators on the challenges likely to be encountered in the next 12 months i.e. considering that the survey was circulated in December 2008, it is clear that much greater concern about the impact of the crisis has come to the fore.

67. Responses indicated that regulatory authorities and emerging markets generally began to experience extreme volatility and potential stress on market infrastructures, clearing, settlement, credit and solvency risks of market intermediaries, continuous asset price declines, unit trusts redemption pressures and bond defaults.

68. In this regard, there appeared to be a shift of focus towards reforms to the financial regulatory framework amongst a wider proportion of the respondents. The role of the regulator and regulation itself is now on a totally different setting. The crisis has shown us that a proper regulatory framework is at the core of the agenda for the next 12 months.

69. Possibly in anticipation of a rise in misconduct and abuse by market intermediaries given deteriorating global financial conditions, emerging market regulators said they had recognized the need to strengthen their oversight and supervision of the conduct and professionalism of market intermediaries, and credit rating agencies.

70. Emerging market regulators are also in unison in maintaining a strong investor protection regime given the uncertainties over global capital market developments.

Table 7 **Changes in perception of regulatory and supervisory issues faced by emerging market regulators in the 12 months after global turbulence became more pronounced (no. of responses)**

THEMATIC GROUPS	Pre - December 2008	Post Financial Turbulence
Regulatory Approach and Capacity	11	25
Systemic Impact	18	19
Conduct of Business	9	15
Market Development	15	13
Governance and Compliance	17	10
Market Impact	17	10
Economic Impact	5	5
Market Abuse	8	2

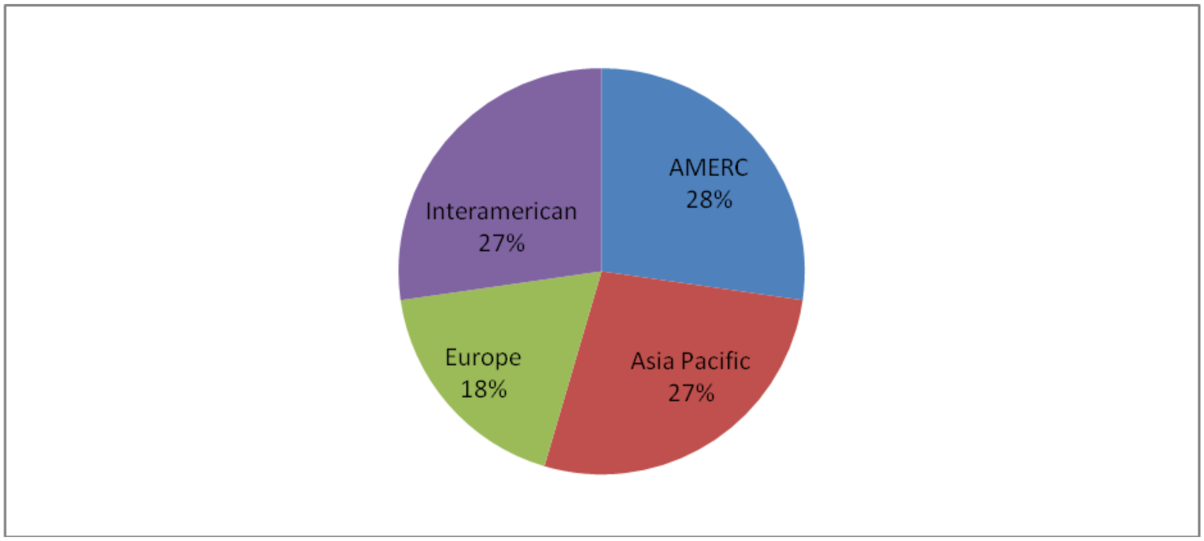

Figure 7 **Proportion of respondents indicating "Regulatory Approach and Capacity" issues as high importance (by region)**

Table 8 **Sample of responses relating to Regulatory Approach and Capacity Issues**

REGION	**RESPONSES RECEIVED**
Africa Middle East	"Regulator independence"
	"Zero tolerance for market infractions"
	"Ensuring market regulation, supervision and promotion."
	"General modernisation of regulation and supervision of the provision of investment services including brokers and dealers, financial advisors, asset managers and web based dealer platforms."
	"Negotiate the possible solutions toward disbandment the overlap of regulatory authorities"
Interamerican	"Review of jurisdiction's crisis management arrangements"
	"Implementation of new structure of financial regulation"
	"Regulation framework for credit rating agencies (CRA)"
	"Update mutual funds regulation"
Asia Pacific	"Inadequate capacity of the [ ]. Lack of necessary equipments and human resource."
	"Maintaining stability in the financial markets through enhanced coordination and cooperation with government institutions and industry bodies."
European	"Implementation of IOSCO Principles"
	"Improve supervision legislation"
	"Adoption of the amendments to ZTFI(market in financial instruments act) due to implementation of the EU directive (qualified holdings in financial institutions)"

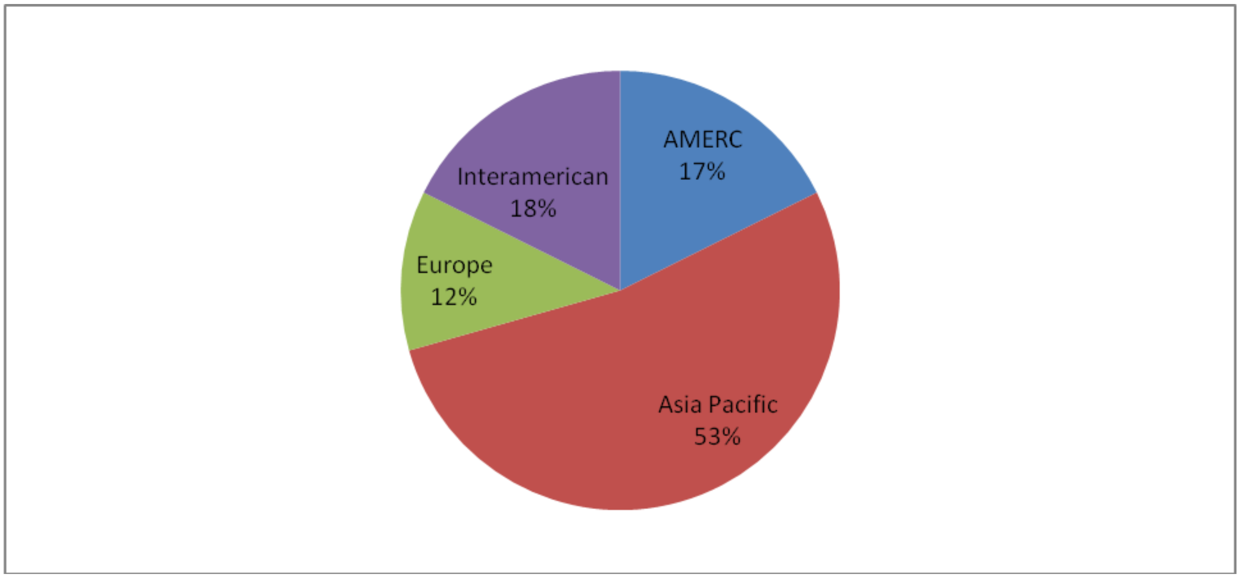

Figure 8 **Proportion of Respondents indicating "Systemic Impact" issues as high importance (by region)**

Table 9 **Sample of responses relating to Systemic Impact issues**

REGION	RESPONSES RECEIVED
Asia Pacific	"Ensuring that the potential risks of financial institutions are disclosed properly, and the potential risks are resolved or controlled."
	"Supervising clearing and settlement system to ensure that the clearing house has sufficient source of capital to manage risks."
	"Financing system in capital markets that ensure continuous fund flow and overcome the liquidity problems."
	"Concern over undue pressure on the redemption of funds within the CIS sector due to the decline in market activity and effects of the economic downturn."
Interamerican	"Review the legal and regulatory framework to detect breaches and to avoid the occurrence, in the future, of problems detected in the study of the origin of the financial crisis. In particular, those related with credit risk rating, over the counter trades and derivatives and market, credit and liquidity risk management."
	"Dealing with investment businesses/funds affected by financial crisis/frauds."
Africa Middle East	"Ensure market stability that is orderly, transparent, fair, efficient and viable."
	"Securitization and rating."
	"Market reaction to global financial crisis and how to decrease risks transfer from exchanges from overseas."
European	"Impact of economic slowdown on financial sector"

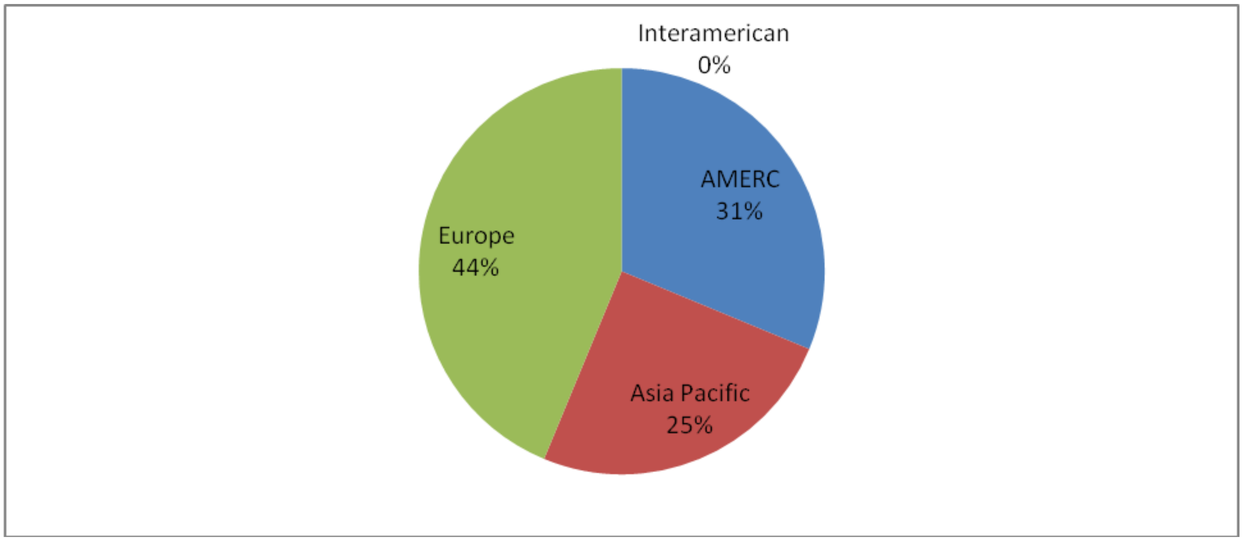

Figure 9 **Proportion of respondents indicating "Conduct of Business" issues as high importance (by region)**

Table 10 **Sample of responses relating to Conduct of Business issues**

REGION	RESPONSES RECEIVED
European	“Implementation of risk-based methodology of supervision of market participants”
	“Supervision of investment funds”
	“Discipline of capital market participants”
	“Supervision for securities intermediaries and financial tables [statements] of publicly held companies.”
Africa Middle East	“Investor protection with respect to Collective Investment Schemes.”
	“Mis-selling products and failure to conduct adequate Know Your Customer procedures – resulting from a need to increase profits quickly, lack of robust training, lack of competent staff, and remuneration schemes with inappropriate incentives – might lead to inappropriate client take-on”
	“Regulations for Credit Rating Agencies”
Asia Pacific	“Proper regulation of Market Intermediaries.”
	“Proactive monitoring of the Financial Sector, through on-site and off-site inspections, to ensure strict compliance with the regulatory framework.”
	“Enhancing capacity of market participants (brokerage house and investment managers in particular).”
	“Facilitating liquidity enhancing support to Mutual Funds and further strengthening MF regulations relating to governance, risk management, transparency, valuation of securities, investment norms etc for greater investor protection.”

Sources of Instability[11]

71. The Survey considered the sources of instability and financial contagion in emerging market jurisdictions, including the measures taken to reduce such instability. Although respondents were given a diverse range of financial and economic factors that may have been key sources of instability from which to choose from, the overwhelming response of emerging markets highlighted distinctly macroeconomic factors such as repatriation of capital by foreign investors, withdrawal of lines of credit, international terms of trade and exchange rate adjustments and domestic interest rate adjustments.

72. In this context, factors such as speculation in derivatives, risk transfers from dual listings, lack of hedging possibilities and structured bond downgrades received low to very low significance ratings across the majority of respondent jurisdictions.

Sources of macroeconomic instability:

73. Nonetheless, specific macroeconomic concerns differ somewhat across the IOSCO regional areas. Repatriation of capital by foreign investors appears to have affected Africa and the Middle East region and the Asia Pacific region more than the European and the Interamerican regions. The withdrawal of lines of credit was pointed to as an important source of instability in most jurisdictions except for the African and Middle Eastern region. The terms of trade, associated with the decline in commodity prices, was cited as a source of instability in the Asia Pacific and European regions.

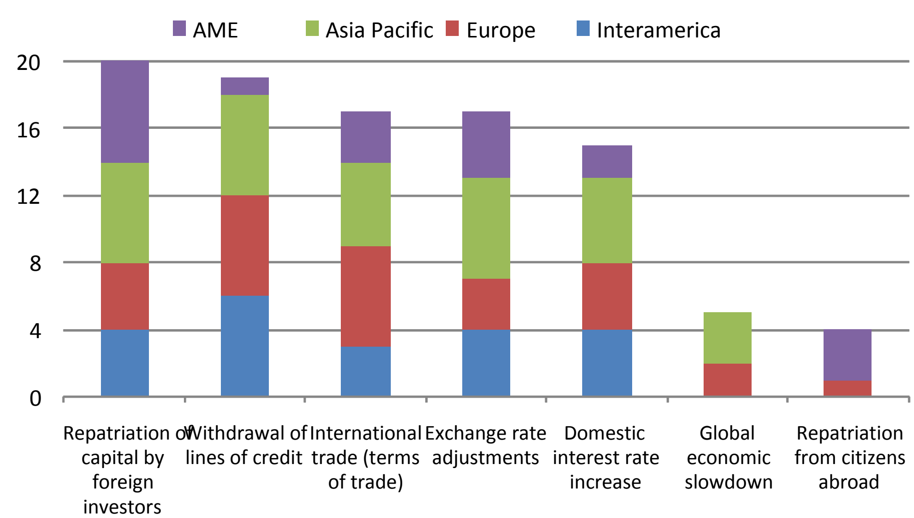

Figure 10 **Classification of macroeconomic risks by region (no. of responses)**

11 Comparisons of the Sources of Instability noted in Question 5 and the responses highlighted in Question 6 are available in Appendix 5.

Sources of financial sector instability and other risks:

74. Under the financial sector and other risks category, exposure to risky assets was seen as a significant source of instability within the capital markets, especially in the Asia Pacific and European regions.

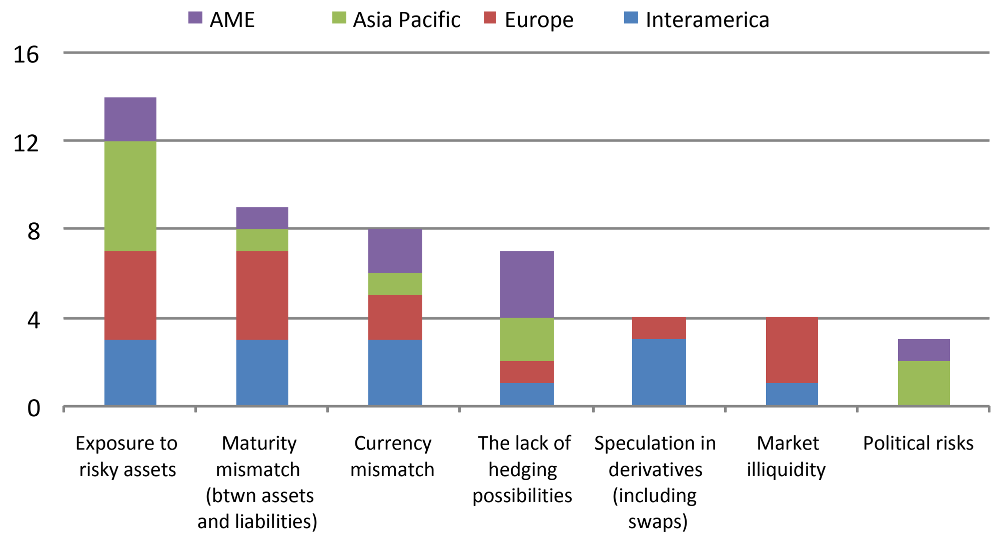

Figure 11 Classification of financial sector and other risks by region (no. of responses)

Measures undertaken to address Instability[12]

75. Different jurisdictions undertook diverse interventions in addressing key sources of instability. Nevertheless, interventions have primarily focused on mitigating macroeconomic risks and addressing threats to systemic stability. Banking and monetary interventions accounted for more than a half of total responses.

Macroeconomic measures

76. Exceptional financing from central banks appears to be the main measure taken to reduce instability, particularly by emerging markets in the Interamerican region, followed by the European region. Increasing deposit insurance limits on the other hand, appears to be especially common for emerging markets in the European and in Asia Pacific regions.

77. All regions have adopted various fiscal and monetary policies, such as fiscal stimulus packages and monetary policy changes e.g. lowering benchmark interest rates in line with the developed economies. International financing arrangements include funds received from international bodies, such as the International Monetary Fund (IMF) and the World Bank, as

12 Comparisons of the challenges highlighted in Questions 1 to 4 and the more specific responses to the crisis highlighted in Question 6 are in Appendix 1.

well as currency swap lines, and has only been adopted by one country in European region[13], according to the survey results. More on these issues will be discussed in chapter 4.

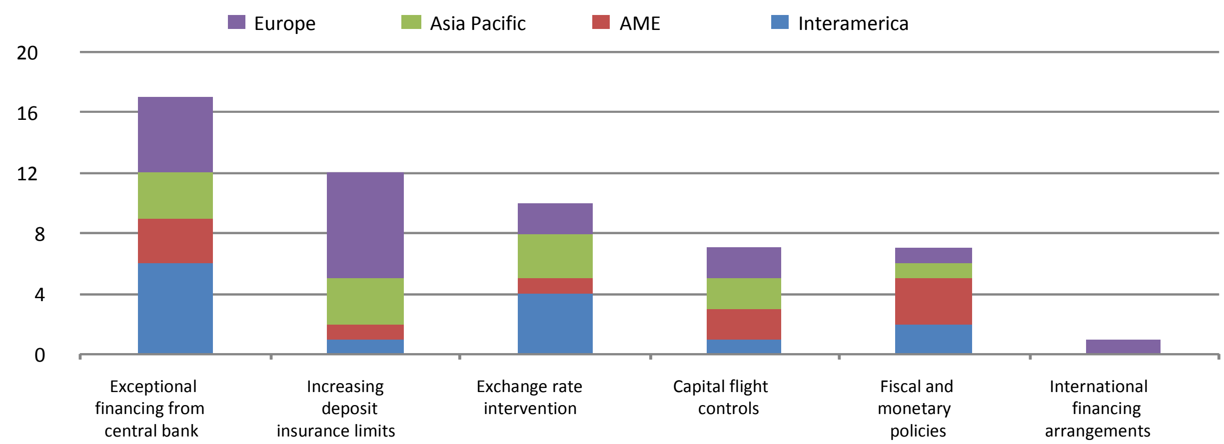

Figure 12 **Classification of banking and monetary interventions by region (no. of responses)**

Capital markets measures

78. Restricting short selling, trading halts and circuit breakers were the principle measures taken by regulators to reduce instability especially in the African and Middle Eastern and Asia Pacific regions. Market closures were taken predominantly in the European and the Africa/Middle East regions.

79. The Survey also shows other types of "temporary revisions of securities market regulations" cited by the survey respondents, such as allowing for bond issuance flexibilities to facilitate corporate fundraising, longer repayment period for margin financing, easing of share buy-back requirements, revising margin requirements for futures contracts and reducing stamp duty for share transactions. This measure was widely used in the African and Middle Eastern region followed by the Asia Pacific region.

13 This is reflective of the responses received as at the date of the Survey and may not be reflective of development arising since that time.

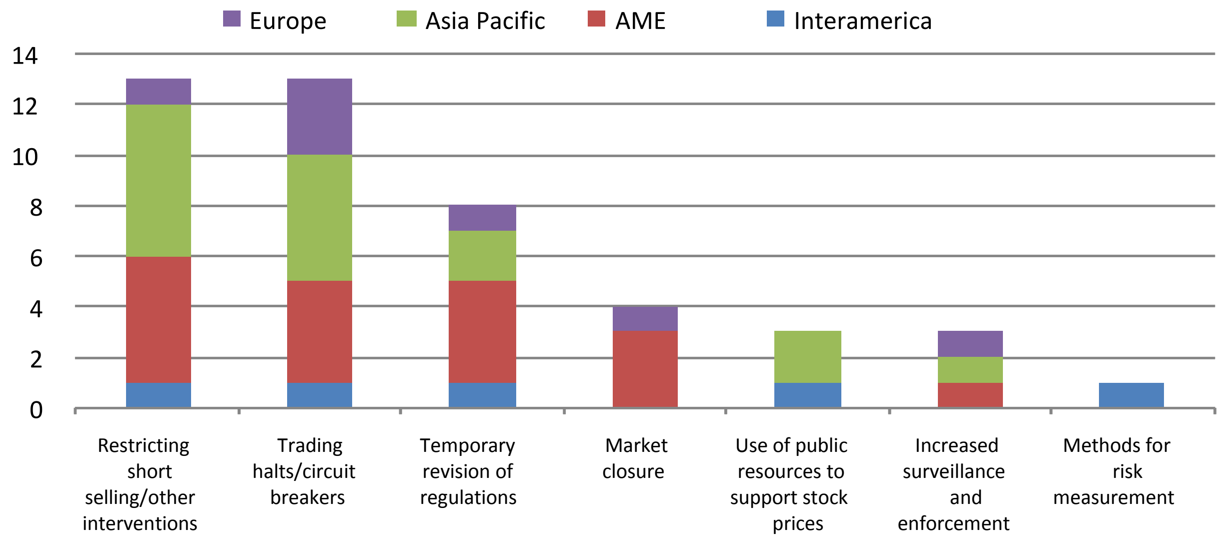

Figure 13 **Classification of capital market specific interventions by region (no. of responses)**

Additional Information and Comments Received[14]

80. Question 7 was an open question to allow jurisdictions to communicate "any other relevant issues affecting your jurisdiction" that had not been addressed elsewhere in the survey. In the gross majority of responses, jurisdictions used this question to elaborate on their responses to the previous question 1 to 6. A number of interesting comments and observations have been set out in Appendix 5 to give an indication of the diversity of responses within each of the IOSCO regions. The comments have been replicated verbatim other than the removal of references to the names of the jurisdictions. Where a comment could not be reasonably displayed without compromising the confidentiality of the maker it has not been included.

[14] Samples of the responses and elaborations provided in question 7 are set out in Appendix 5.

CHAPTER 4: ANALYSIS OF SURVEY RESULTS

81. This chapter analyses changes in regulatory and supervisory focus among emerging market regulators before and after the global financial turbulence became more pronounced in emerging markets. This chapter also looks at the causes of instabilities and responses by emerging market regulators in addressing these instabilities which were caused by the sudden escalation of the financial crisis in the fourth quarter of 2008.

82. Stresses on financial markets worsened in 2008 as the turmoil in mortgage and money markets the year before deepened and spread worldwide. Although fragile, market sentiment had managed to endure a steady stream of news about mounting losses, declining asset quality, uncertainty over funding availability and surges in fund redemptions. But the failure of several large and systemically important financial institutions, as well as a string of sovereign defaults from September 2008 onwards proved to be a tipping point. Global market conditions deteriorated sharply thereafter, triggering a wave of contagion that swept over a wide range of asset classes, including stocks, bonds and commodities, in developed and emerging markets alike.

83. Equity prices fell sharply, credit spreads widened significantly, risk aversion remained high and short-term rates increased markedly as liquidity dried up in major credit markets. The vulnerabilities in the global financial system led to excessive equity price swings on both the upside and downside, and there were sharp declines in valuations across all equity markets. Uncertainties over global financial stability, continuous global deleveraging and sovereign defaults by several countries prompted heightened risk aversion and flight-to-quality among investors throughout 2008. This resulted in massive deleveraging and heavy selling in all asset classes including stocks, bonds and commodities, in both developed and emerging markets.

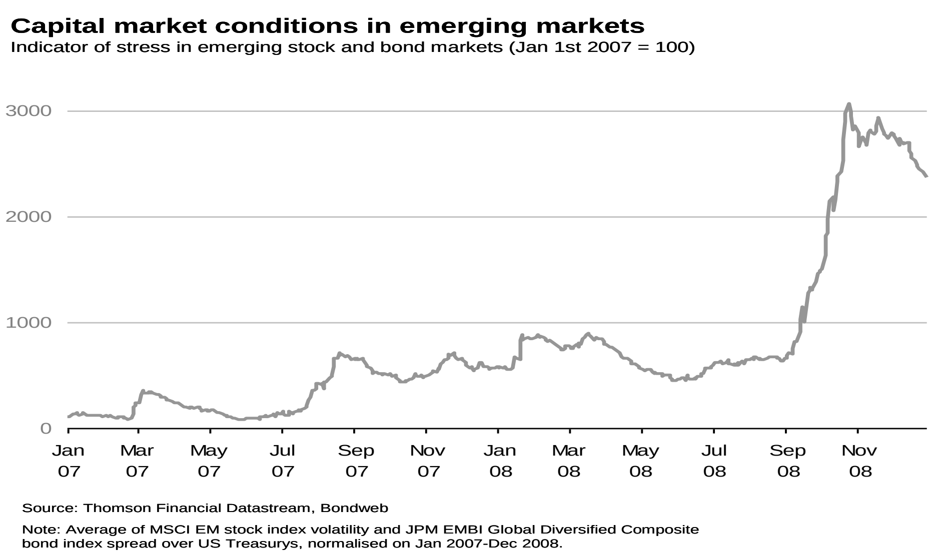

Figure 14 Capital market conditions in emerging markets

84. The impact of recent global financial turbulence on emerging markets in general has arguably been more severe as a result of a number of factors, including a small domestic institutional investor base, a lack of domestic hedging instruments and relatively thin capital markets. Emerging markets as a whole too have become much more integrated with the global financial system, and increasingly exposed to systemic risk and subjected to extreme price volatility and shock transmission as a result of global deleveraging and heightened risk aversion.

85. The Survey showed that in light of these developments:
    - Systemic risk remained a key issue for emerging market regulators throughout;
    - Issues concerning regulatory capacity and approach became increasingly important;
    - There was increased focus on the business conduct of market participants; and
    - Market development initiatives continued to be emphasised throughout.

Sustained Focus on Systemic Risk Issues

86. The Survey findings show that systemic risk had been a key concern for regulators even before the onset of widespread global financial turbulence. While the general view was that emerging markets were not as affected in the early stages of the financial crisis, the Survey responses indicate that some emerging market regulators – especially those in the Asia-Pacific region – were already placing high priority on systemic issues, such as financial soundness of market intermediaries and the resilience of trading and clearing and settlement systems. Other sources of risk included mutual funds redemption pressures and asset-liability mismatches.

87. Asia Pacific region respondents mentioned systemic risk the most, highlighting especially the potential impact of extreme financial market volatility on the financial soundness of market intermediaries as well as on overall market sentiment. Regulatory responses included:

    1. increasing the regularity of prudential reporting by securities firms to a daily frequency;
    2. assessing portfolios of market intermediaries to ensure that securities firms holding or investing in mortgage bonds or collateralized debt obligations of foreign financial institutions affected by the crisis would not threaten overall systemic stability in their market;
    3. closely monitoring the quality of margin loans and conducting stress testing on capital requirements of market intermediaries to ensure sufficient capital for operational purposes;
    4. relaxing regulations on share buy-backs and marked-to-market rules to minimize systemic impact on public listed companies; and
    5. introducing margins for stock brokers to reduce clearing and settlement risks in equity trading.

88. Africa Middle East region respondents raised concerns of a growing risk of the inability of US-Europe based parent companies to support and finance the operations of subsidiaries in

their domestic market. Regulators in the Interamerican region on the other hand expressed concerns about increased credit risk on stock broker-dealers due to the sharp decline of asset prices and increased credit risk exposures of investments by institutional investors. Regulators in the European region were more concerned over the contagion effect of the global financial turmoil on their domestic banking sector. One reason for this could be the bigger exposure of European banks to subprime and other related toxic assets compared to banks in the Asia Pacific, African and Middle-Eastern and Interamerican regions.

89. As global turbulence became more pronounced and global deleveraging intensified, systemic risk continued to be a major focus of emerging market regulators. Africa Middle East and the Interamerican regions saw a rise in responses on systemic impact issues while responses from the Asia Pacific and European jurisdictions remain unchanged.

90. In the Africa Middle East region, regulators cited concerns over OTC derivatives market and credit and liquidity risk management of market intermediaries. Other issues that were highlighted include capital adequacy issues and the impact of risk transfers from exchanges abroad. In order to address liquidity and credit risk, one jurisdiction in the Africa Middle East region reported that it was reviewing the legal and regulatory framework to detect breaches and to avoid future occurrence of problems detected in this financial crisis.

91. Survey responses from the Interamerican region showed that regulators were increasingly focused on ensuring that banks remain adequately capitalised, as well as monitoring and assisting investment businesses and funds that have been affected by the financial crisis or frauds.

92. Regulators in the Asia Pacific region on the other hand, closely monitored the leverage of financial institutions and ensured that the potential risks of these financial institutions are disclosed properly, controlled and resolved. Asia Pacific regulators have also increased surveillance on clearing and settlement systems and robustness of market infrastructure risk management systems to ensure that clearing houses are able to absorb potential shocks caused by extreme volatility in the capital markets as detailed below.

93. Other systemic impact issues raised by emerging market regulators also include credit and solvency risks of market intermediaries, continuous asset price declines, unit trusts redemption pressures and bond defaults.

94. Market impact was another main regulatory and supervisory concern faced by emerging markets before the spread of the global financial crisis. Asia Pacific regulators reported the most market impact related issues included price levels and volatility, trading activities, liquidity, market capitalization and contagion effects.

95. No market appeared immune to market price volatility and the low liquidity that arose as a consequence of the global deleveraging that accompanied the credit crisis. A wide diversity of measures were identified as having been put in place to combat this volatility ranging from the refinement of circuit breaker and trading halt rules, the introduction of restrictions on short selling and market stabilisation initiatives to the redemption of mutual funds and in some circumstances the actual closure of markets, all in an effort to slow the collapse of

prices. Where cross-listings were allowed, regulators reported tighter surveillance and regulation of cross border transactions.

96. Decline in market liquidity, stemming from an outflow of funds as a result of the repatriation of capital by foreign investors and withdrawal of credit lines by banks, was another common issue raised. Regulators were concerned that this could lead to an increase in default risks for a large number of brokers as a result of not meeting their settlement obligations. There were also concerns over the substantial fall in market capitalisation due to lacklustre fund raising activities in the primary markets. One particular regulator, of which the bond market is of significant size, continuously managed bond market risks by monitoring valuations of some low liquidity bonds. One regulator in the Interamerican region quoted that liquidity risk could increase as a consequence of the uncertainties over the real risk rating of debt instruments and hedge of derivatives.

Increasing Emphasis on Regulatory Approach and Capacity

97. Regulators in emerging markets have placed more emphasis on their regulatory approach and capacity under a more challenging environment as the global financial turbulence spread to emerging markets. Strong feedback was also received on the need to focus on the area of strengthened surveillance and risk management systems in the next 12 months to effectively ensure compliance by all market players in addition to the introduction of robust governance and conduct of business guidelines. A number of jurisdictions stressed the importance of prompt and consistent enforcement action which is undoubtedly one of the key criteria for building fair, efficient and transparent markets. These efforts include ensuring that regulators' duties are effectively defined within the regulatory framework, including the removal of any potential overlaps in regulatory jurisdiction or the closing of any gaps in regulatory oversight. It was reflected in the responses that the importance of compliance surveillance, risk based supervision and enforcement had been recognized as ongoing priorities wholly distinct from the effects of the crisis. However, in the face of the Crisis, increased oversight of intermediary exposures to credit and liquidity risk was repeatedly reported.

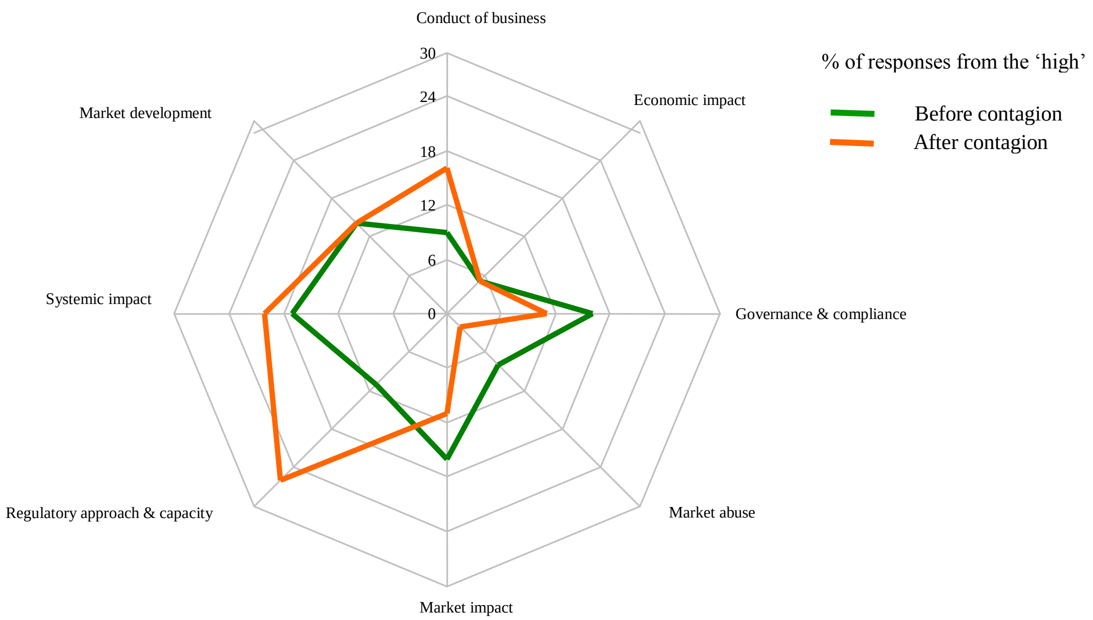

Figure 15 **Shift in regulatory focus**

98. In the Interamerican region, regulators highlighted that they were looking into modifying regulations on mutual funds. Survey results also show that regulators in that region are reviewing crisis management arrangements, implementing new structures of financial regulation, and revising insurance industry regulation and supervision.

99. Regulators in the European region on the other hand, seem to be focusing on implementing best practices. Survey responses cited initiatives to become a signatory to the IOSCO MMOU, implement IOSCO Principles and adopt amendments to relevant local legislation in line with EU directives.

100. In the Africa Middle East region regulators are aligning securities legislation with best international practice, considering effective regulatory measures to regulate the trading of unlisted securities (derivatives), and reforming enforcement measures. One regulator is even looking at general modernisation of regulation and supervision of the provision of investment services including brokers and dealers, financial advisors, asset managers and web based dealer platforms and coordinating with the judiciary system in the country to enact a new legal framework.

101. In the Asia Pacific Region, one regulator is making amendments to the Securities Market and Central Bank legal frameworks, whilst another is enhancing coordination and cooperation with government institutions and industry bodies.

102. Clear definition of the jurisdiction of a regulator, the effective empowerment of Self-Regulating Organizations and the promotion of a dynamic market infrastructure have been

reported as major regulatory and supervisory challenges. Where domestic markets can evidence shortened settlement cycles, transparent custody systems and robust and diversified trading platforms, those markets may be in a stronger position to respond to the current market volatility and general risk aversion that has characterized the crisis. In this regard, jurisdictions must continue to cooperate to provide assistance to one another to build technical capacity to be in a position to effectively execute their regulatory functions as well as building the skills and capacity of market intermediaries.

Increased Focus on Business Conduct of Market Participants

103. It appears that emerging market regulators are also focusing on greater monitoring of the behaviour of market participants after the contagion effect. In anticipation of a rise in misconduct and abuse by market intermediaries, emerging market regulators reported that they are strengthening their oversight and supervision of conduct and professionalism of market intermediaries, as well as CRAs. Emerging market regulators are also in unison in maintaining a strong investor protection regime given the uncertainties over global capital market developments.

104. In Asia Pacific, one jurisdiction is looking at enhancing support to mutual funds and further strengthening mutual fund regulations relating to governance, risk management, transparency, valuation of securities, investment norms etc. for greater investor protection, enhancing capacity of market participants (brokerage house and investment managers in particular), ensuring good business conduct, and governance and compliance among issuers as well as market intermediaries in order to sustain investor confidence.

105. In the Africa Middle East region, much focus has been placed on the supervision of intermediaries, particularly, companies managing CIS and CRAs. One regulator highlighted concerns of mis-selling products and failure to conduct adequate "Know Your Customer" procedures by intermediaries.

106. Regulators in the European region reported that they are implementing a risk-based methodology of supervision of market participants, increasing effectiveness of the supervisory framework for CRAs and securities intermediaries and investment funds.

Continued Market Development Efforts

107. The Survey also suggests that regulators aim to continue with market development initiatives, which can both strengthen market resilience and promote and facilitate economic growth.

108. For example in the Asia Pacific region, regulators are looking at developing new products and markets including the bond market, introducing derivatives and investing in new technologies. Regulators in the Africa Middle East region on the other hand are looking to shorten the settlement cycle for equities from T+5 to T+3, introducing and enhancing rules with regards to credit markets. Studies are also being conducted on companies that have

smaller capitals and ways to strengthen the integration of these entities and requirements of the labour market in the financial sector. A jurisdiction in the Interamerican region is looking at unifying systems between two exchanges while some of the market development initiatives in the European region include developing private pension funds, amending laws on investment funds and even the setting up of a Multilateral Trading Facility (MTF) for foreign shares managed by the system operator.

Macroeconomic Risks to Markets

109. The Survey respondents see heightened macroeconomic risks as a greater source of instability to emerging markets; the majority of responses indicated that macroeconomic risks are significant, nonetheless financial and other risks were also seen as major concerns.

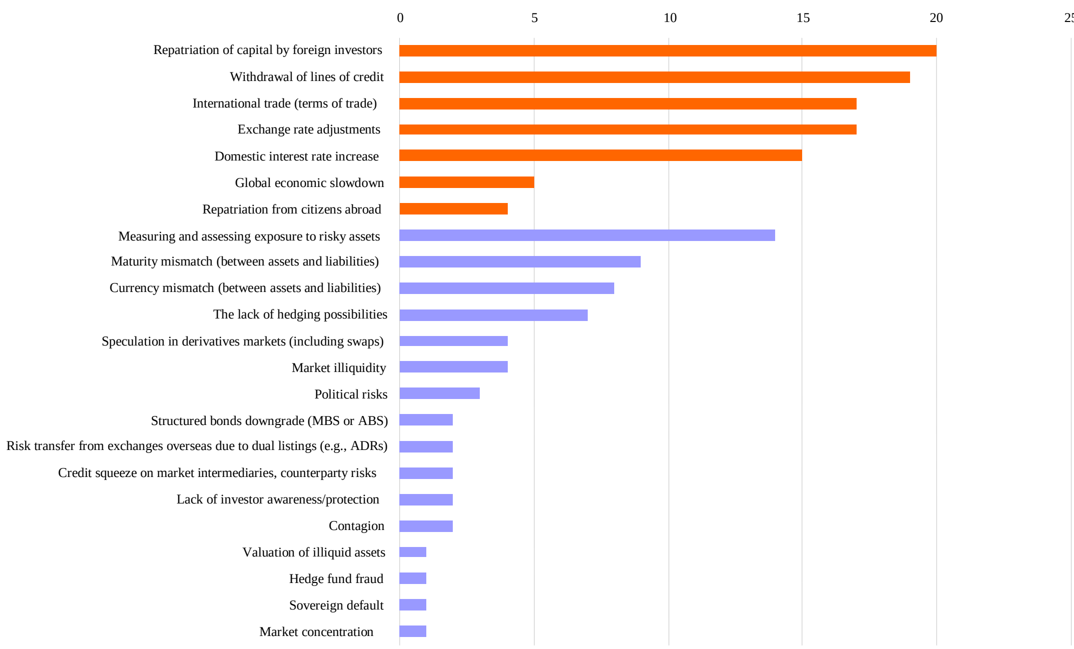

Figure 16 **Measures taken to reduce instability**

110. The major areas of macroeconomic risks highlighted in the survey, accounting for almost half of the total responses, include, among others: repatriation of capital by foreign investors, withdrawal of lines of credit, international trade, exchange rate adjustments, as well as domestic interest rate increases. While in the financial and other risks segment, exposure to risky assets (quite significant as this alone accounts 9% of the total responses), maturity mismatch, currency mismatch and lack of hedging facilities appeared to be the key sources of instability faced by emerging markets.

111. Repatriation of capital by foreigners was seen as the major source of instability to emerging markets across all regions. The role of repatriation of capital by foreigners in the

proliferation of market volatility received consistently high ratings across all regions particularly in Asia Pacific. This is evident by the EPFR Global[15] report that shows net outflows from Asian ex-Japan funds reached US$13 billion for 2008 (figure up to December 3rd) compared to that of US$10 billion inflows in 2007 with Taiwan and Korea being the biggest hit[16]. It is noteworthy that a number of jurisdictions reported having put in place capital controls in an effort to mitigate the potential damage of sudden and heavy capital outflows.

112. Other key sources of instability which were not categorised but highlighted in the Survey by the emerging market regulators include global economic slowdown, remittances from citizen abroad, market illiquidity and political uncertainties. These risks were emphasized quite significantly particularly by the African and Middle Eastern and the Asia Pacific regions mainly in respect of political risks and reductions in remittances from citizens abroad. For example, several Asia Pacific jurisdictions indicated that domestic political uncertainties posed one of the threats to the respective nation.

113. Beyond the impact of the crisis on financial markets, the responses received also appear to be suggesting that emerging markets are already experiencing the impacts of what is being called the "second" and "third wave" of the Crisis, being the impacts on the "real" economy and subsequent social dimensions. Although the crisis began with write-downs, capital losses and fire-sales related to complex products in developed markets, these have been transmitted through sharp market price declines and volatility in the respondent jurisdictions and more importantly these financial sector shocks are having significant economic implications. One key parameter noted by a number of jurisdictions is the decline in remittances from their nationals living in developed economies which had been crucial drivers of emerging market growth. Given the inseparable link between the stability in emerging markets with the receipt of remittances, this further underscores the interconnected nature of developed and emerging markets. These range from declines in international terms of trade and loss of critical credit lines, downward domestic interest rate adjustments, and detrimental exchange rate adjustments and decreased international and domestic demand.

15 http://www.emergingportfolio.com/index.cfm

16 "Capital Flight from Asia", *Financial Times*, December 11th 2008.

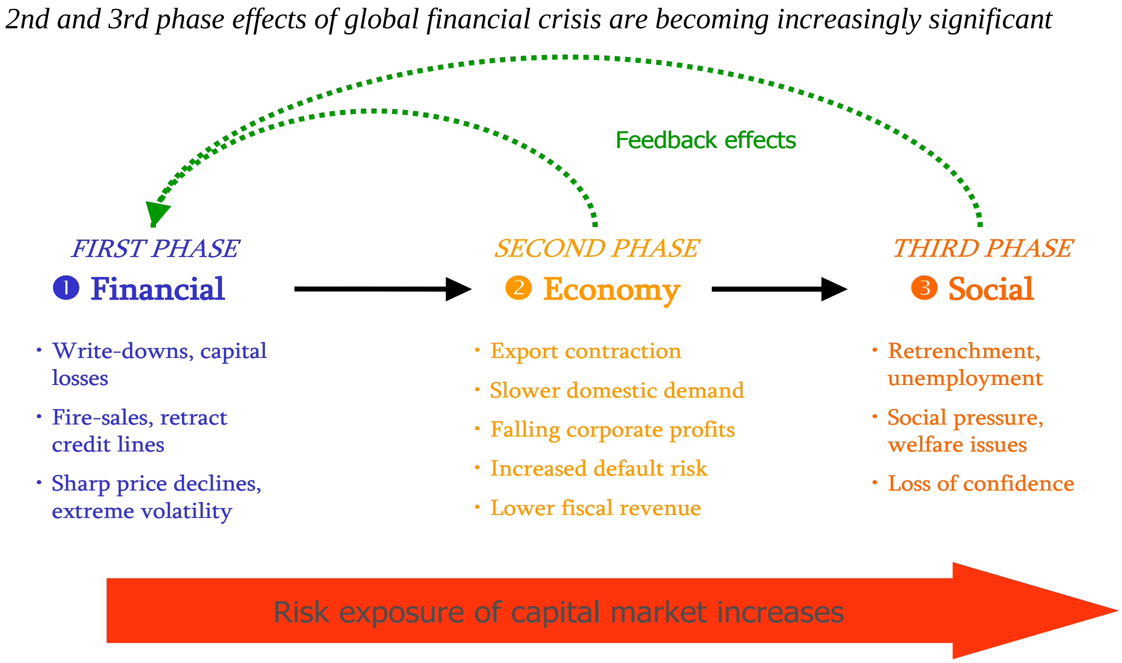

Figure 17 **Feedback effect of global financial crisis**

114. These second phase impacts are now being foreseen as precursors to much broader social challenges such as increased domestic unemployment, increased welfare or social service expenses and increased loss of investor confidence. The indications from the frequency of responses relating to central bank financing, exchange rate intervention, market price stabilization, capital flight controls and market interventions suggests there is likely to be a sustained focus on systemic issues in the next 12 months. This further reiterates the general apprehension over identifying the best measures to mitigate, where possible, the impacts of the crisis on economic growth and more importantly how to counter these macroeconomic risks to capital markets growth.

The Economic impact on the emerging economies has been more severe than expected at first

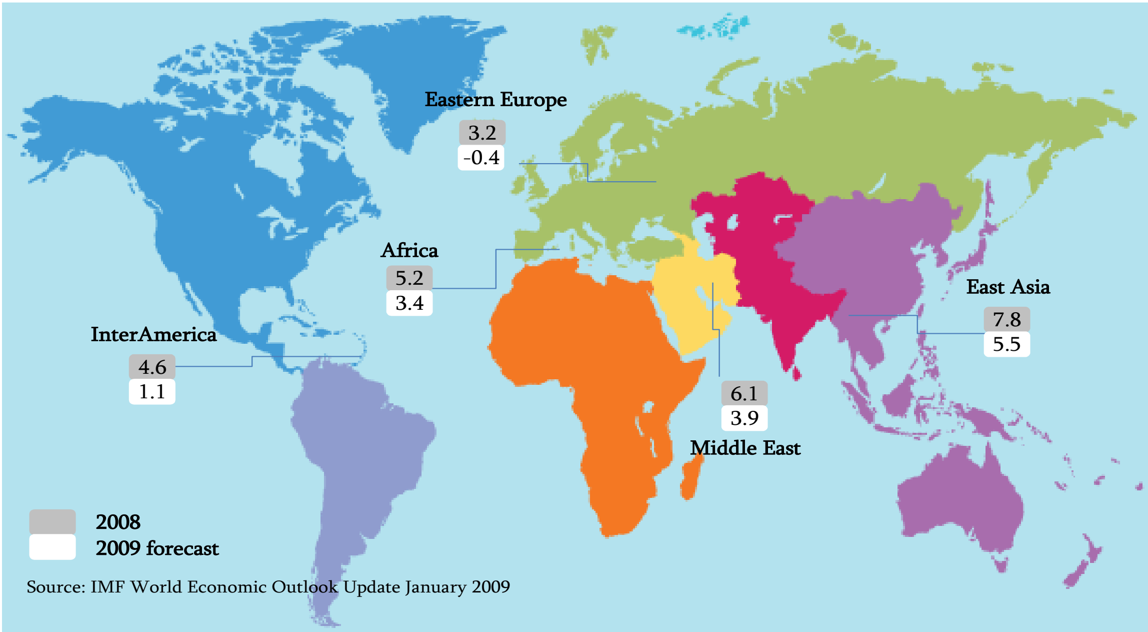

Figure 18 Economic impact on emerging economies

115. Although worsening financial turmoil and a sharp deceleration of economic activity around the world has led to a reassessment of macroeconomic risks, financial and other risks identified by the respondents appeared to be equally important. Measuring and assessing exposure to risky asset were seen as relatively significant mainly in emerging Europe and some parts of Asia, e.g. exposure to hedge fund fraud and exposure of funds to subprime related assets or troubled financial institutions. These findings suggest that European banks have been more exposed to the contagion effects from the US subprime crisis and consequent financial turmoil compared to other regions.

116. Furthermore, a number of jurisdictions highlighted market illiquidity as a source of instability in their respective markets. These risks include among other issues pertaining to valuations of illiquid assets, illiquid bond markets as well as lack of liquidity as a result of lower fundraising activities in the primary markets and trading activities due to heightened risk aversion. Interestingly, issues over lack of investors' awareness and protection seem to only appear in the Africa Middle East region, probably because of the establishment of new markets in the region which are not fully developed, hence the greater need to enhance investors' awareness and the respective protection regimes.

117. In apparent distinction from the experiences in developed markets, the emerging market respondents overwhelmingly noted that certain factors appeared to be of little to no consequence as sources of instability in their markets. Notwithstanding the increased integration of emerging markets in the global financial system, the majority of jurisdictions noted that they did not suffer from risk transfers from dual listings, speculation in derivatives, structured bond downgrades lack of hedging possibilities and currency mismatches.

Regulators have acted more proactively in combating the crisis

118. A diverse range of measures were identified as having been put in place to combat rigorous market price volatility and low liquidity that arose as a consequence of the global deleveraging that accompanied the credit crisis. These range from the refinement of circuit breaker and trading halt rules, the introduction of restrictions on short selling or on the redemption of mutual funds and in some circumstances the actual closure of markets all in an effort to slow the collapse of prices.

119. Exceptional financing from central banks appear to be the main measure taken to reduce instability, particularly by emerging markets in the Interamerican region, followed by the European region. This includes massive liquidity injections to calm financial markets. Increasing deposit insurance limits on the other hand, appears to be especially common for emerging markets in the European and Asia Pacific regions. Most central banks have moved towards increasing deposit guarantee limit to shore up confidence and avoid huge withdrawals due to persistent fears over the health of banks and financial institutions.

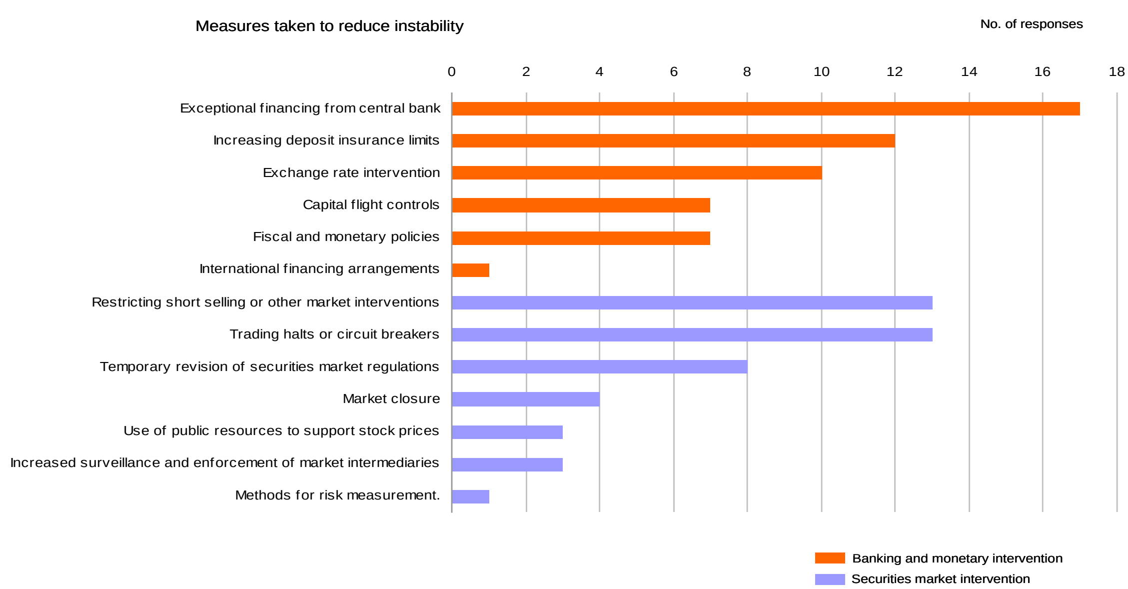

Figure 19 Measures taken to reduce instability

120. All regions reported adopting various fiscal and monetary policies, such as fiscal stimulus packages and monetary policy changes e.g. lowering benchmark interest rates in line with the developed economies and offering fiscal stimulus packages. International financing arrangements being funds received from international bodies (IMF, World Bank), as well as currency swap lines, were only reported to have been adopted by one country in Europe.

121. Restricting short selling, trading halts and circuit breakers were the principle measures taken by regulators to reduce instability especially in the African and Middle Eastern and Asia Pacific regions. Market closures were taken predominantly in the European and Africa Middle East regions. A number of respondents cited that a regulated short selling framework is in place, while some jurisdictions have banned short-selling altogether.

122. Some quarters have argued that short selling does play an important role in capital markets for a variety of reasons such as more efficient price discovery, mitigating price bubbles, increasing market liquidity, facilitating hedging and other risk management activities. However there is also a general concern that, especially in the extreme market conditions recently experienced, certain types of short selling or the use of short selling with certain abusive strategies may contribute to disorderly markets. Regulating short-selling by emerging market regulators is aimed at reducing the potential destabilising effect that short selling can cause without exerting undue impact on securities lending, hedging and other types of transactions that are critical to capital formation and to reducing volatility.

123. On the other hand, trading halts and circuit breakers appear to be equally significant as measures taken by securities market regulators to reduce instability mainly in the Asia Pacific region, reflecting their experience of the 1997 Asian financial crisis which saw certain indices tumble to record lows. As such, one jurisdiction in this region indicated that market-wide circuit breakers and a market safety net framework have been put in place since 2002 to maintain fair and orderly trading.

124. The Survey also shows other types of "temporary revisions of securities market regulations" such as allowing for bond issuance flexibilities to facilitate corporate fundraising, longer repayment period for margin financing, easing of share buy-back requirements, revising margin requirements for futures contracts and reducing stamp duty for share transactions, were used to mitigate the instabilities in the capital markets. These measures were widely used, especially in the African and Middle Eastern region followed by the Asia Pacific region.

125. It will be necessary to carry out further work to critically assess the effectiveness of the various measures that were implemented by responding jurisdictions with a view to restoring stability. Given the broader economic nature of the potential challenges, it will be necessary to examine whether the steps taken to avert contagion will be effective in the face of what is appearing to be a longer term global economic recession. Of particular interest are likely to be the efforts noted by some jurisdictions to support local exports in response to poor credit recovery as well as other similar efforts to sustain the vibrancy of trade.

126. Although there was limited reference to the promotion of investor confidence in the survey, with the changing outlook on the duration of the crisis the uncertainty has led to risk

aversion at all levels of investment, from institutional to retail. In this regard, in order for jurisdictions to rebuild the lost confidence, a great deal of cooperation and coordination between all jurisdictions in both developed and emerging markets will be crucial. It is unlikely that any single jurisdiction will be able to restore confidence in their markets while neighboring and global markets are perceived to be facing significant turmoil. It was noted that investor education is a central tool in limiting the potential extent of the damage from future crises by ensuring investors understand the products they are investing in and to curb mis-selling of complex products to risk-averse retail segments of the markets.

APPENDIX 1: DETAILED SURVEY RESULTS

In accordance with the methodology set out in Chapter 4, below are the detailed responses received and frequency indications relating to the various responses.

1. Presentation of Responses to Q 1-2

Question 1 requested jurisdictions to indicate the 3 major regulatory and supervisory issues they had dealt with in the last 12 months and Question 2 asked them to classify the challenges identified in question 1 regarding their relative importance and magnitude on financial markets on a scale of 1 (low importance) to 5 (high importance).

Table 11 Major Issues of Concern in Last 12 Months in EMC Jurisdictions

	ISSUES HIGHLIGHTED	RATING OF IMPORTANCE AND MAGNITUDE TO FINANCIAL MARKET (Frequency of Rating)			
		LOW (1-2)	MEDIUM (3)	HIGH (4-5)	
				Number of Responses	Number of Jurisdictions
1	Regulatory Framework (Market Development / Product) Review	0	2	29	21
2	Review of Regulatory Framework in response to the Crisis	0	1	1	2
3	Intensified Surveillance /Risk Management/ Enforcement	2	0	18	18
4	Intensified Surveillance /Risk Management/ Enforcement in response to the Crisis	2	2	5	8
5	Review of Market or Regulatory Infrastructure	0	3	11	8
6	Addressing wider economic and market related challenges arising from the Crisis	0	3	14	13
7	Market Volatility	0	4	8	8
8	Market interventions (Halts, Circuit Breakers, Trading restrictions)	0	0	4	4
9	Strengthen Institutional and Technical Capacity	0	1	0	1
10	Adoption of International Best Standards	0	1	3	2
11	Increase Investor Education and Promote Investor Confidence	0	0	3	2
12	Concerns over Capital Flight	0	0	4	3
13	Impact of country upgrade on MSCI Index	0	0	0	0

Summary of Results
(Major Issues in the last 12 months)

— 1st major Issue (55%, 21 jurisdictions): Regulatory Framework (Market Development / Product) Review.

Considering the frequency weighting, 79% of the total responses noted this was one of their most important issues.

— 2nd major Issue (50%, 18 jurisdictions): Intensified Surveillance /Risk Management/ Enforcement.

Considering the frequency weight, 50% of the total responses noted this was one of their most important issues.

— 3rd major Issue (37%, 13 jurisdictions): Wider economic and market related challenges arising from the Crisis.

Considering the frequency weight, 34% of the total responses noted this was one of their most important issues.

2. Presentation of Responses to Q 3-4

Questions 3 requested jurisdictions to give an indication of what they considered will be the 3 major supervisory and regulatory issues they will have to deal with (without the need to draw any connections to the responses to question 1 and 2) over the next 12 months. Question 4 then went on to request a classification of the responses given to Question 3 relative to their importance and magnitude on the financial markets on a scale of 1 (low importance) to 5 (high importance).

Table 12 Major issues of concern in next 12 Months in EMC jurisdictions

	ISSUES HIGHLIGHTED	RATING OF IMPORTANCE AND MAGNITUDE TO FIANNCIAL MARKET (Frequency of Rating)			
		LOW (1-2)	MEDIUM (3)	HIGH (4-5)	
				Number of Responses	Number of Jurisdictions
1	Regulatory Framework (Market Development / Product) Review	0	1	35	20
2	Review of Regulatory Framework in response to the Crisis	0	1	6	2
3	Intensified Surveillance /Risk Management/	1	2	16	14

	Enforcement				
4	Intensified Surveillance /Risk Management/ Enforcement in response to the Crisis	0	2	12	10
5	Review Market or Regulatory Infrastructure	0	2	6	8
6	Addressing wider economic and market related challenges arising from the Crisis	0	3	11	8
7	Market Volatility	0	1	7	5
8	Market interventions (Halts, Circuit Breakers, Trading restrictions)	0	0	1	1
9	Strengthen Institutional and Technical Capacity	0	0	3	3
10	Adoption of International Best Standards	0	1	4	4
11	Increase Investor Education and Promote Investor Confidence	0	0	2	2
12	Concerns over Capital Flight	0	0	0	0
13	Impact of country upgrade on MSCI Index	0	0	1	1

Summary of Results
(Major Issues in the next 12 months)

— 1st major Issue (52%, 20 jurisdictions): Regulatory Framework (Market Development / Product) Review.

Considering the frequency weight, 92% of the total responses noted this was one of their most important issues.

— 2nd major Issue (37%, 14 jurisdictions): Intensified Surveillance /Risk Management/ Enforcement.

Considering the frequency weight, 42% of the total responses noted this was one of their most important issues.

— 3rd major Issue (26%, 10 jurisdictions): Surveillance /Risk Management/ Enforcement in response to the Crisis.

Considering the frequency weight, 32% of the total responses noted this was one of their most important issues.

2-1. Tabulation of the consolidated responses to Q 1 to 4

Given the strong correlations in responses to question 1 to 2 and 3 to 4 and in order to provide an alternative perspective on the results a combined tabulation of responses to questions 1 to 4 was prepared.

In combining results, where a jurisdiction reiterated a similar set of major challenges in response to both questions 1 to 2 and questions 3 to 4 these responses were not double counted.

Due to the mix of general and crisis related responses being given, a separate tabulation has been provided for the general or non-crisis specific responses and the specific crisis related responses to the questions. This separation of issues was based on the separation of those matters that were expressly noted to have been in connection with the crisis rather than an analytical assessment or assumption of the intention of the responding jurisdiction.

The classification of responses is based on the 13 specific categories as laid out earlier to give as much detail on the nature of responses as possible.

<u>Tabulation of Non-Crisis Specific Responses:</u>

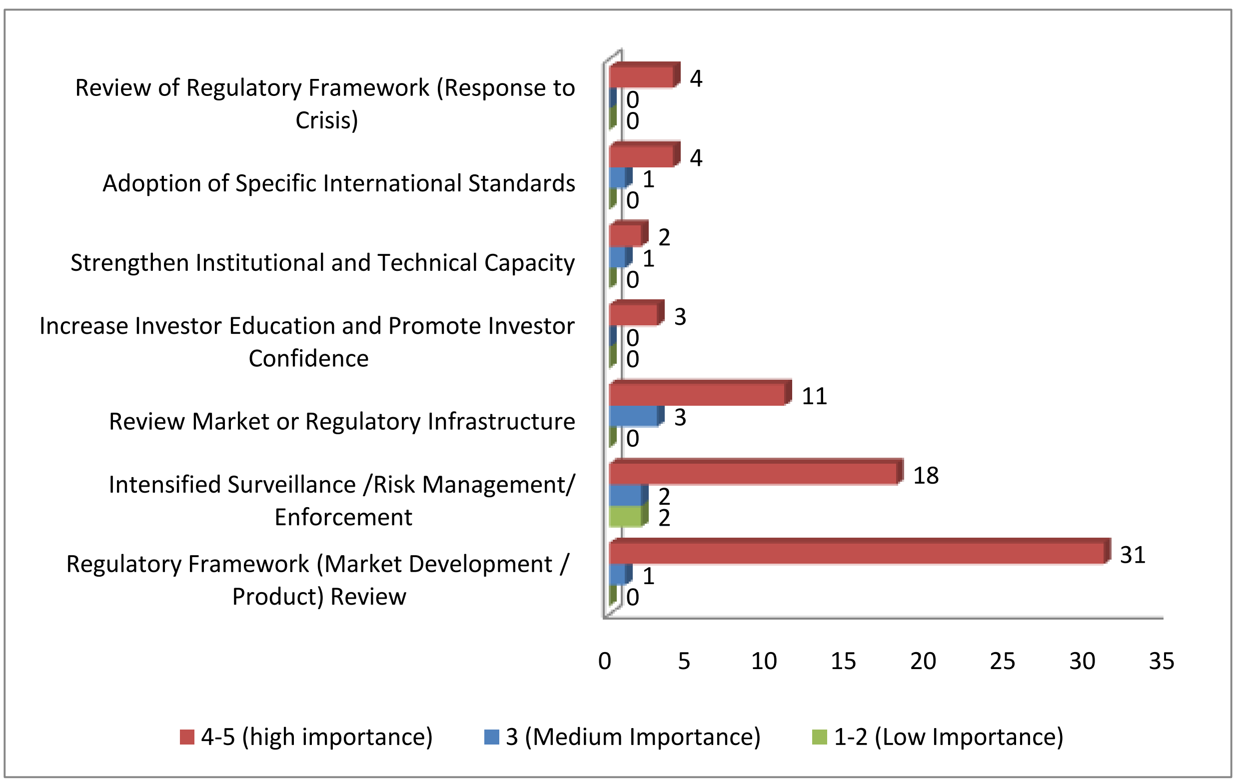

Figure 20 Frequency of key non - crisis specific responses to Questions 1 to 4

Summary of Results

The gross majority of responding jurisdictions indicated that regulatory and legal framework review was one of their major regulatory and supervisory issues over the past 12 months and the next 12 months. In addition to being noted the most, this category also received the highest frequency of ratings as an issue of high importance and magnitude to financial markets as evidenced in the tabulation above.

The next highest frequency in terms of both number of times the issues was noted as a major regulatory and supervisory issues over the last 12 months and next twelve months as well as the importance of this element to the importance and magnitude to the financial markets was the need to intensify market surveillance activities including strengthening risk management models and ensuring more proactive enforcement responses.

Responses further indicated that in line with regulatory framework review, a significant importance was being placed on market infrastructure review ranging from restructuring the operations of the regulator to introducing new exchanges, new segments of existing exchanges and reviewing the operations of central depositories and settlement institutions.

Tabulation of Crisis Specific Response:

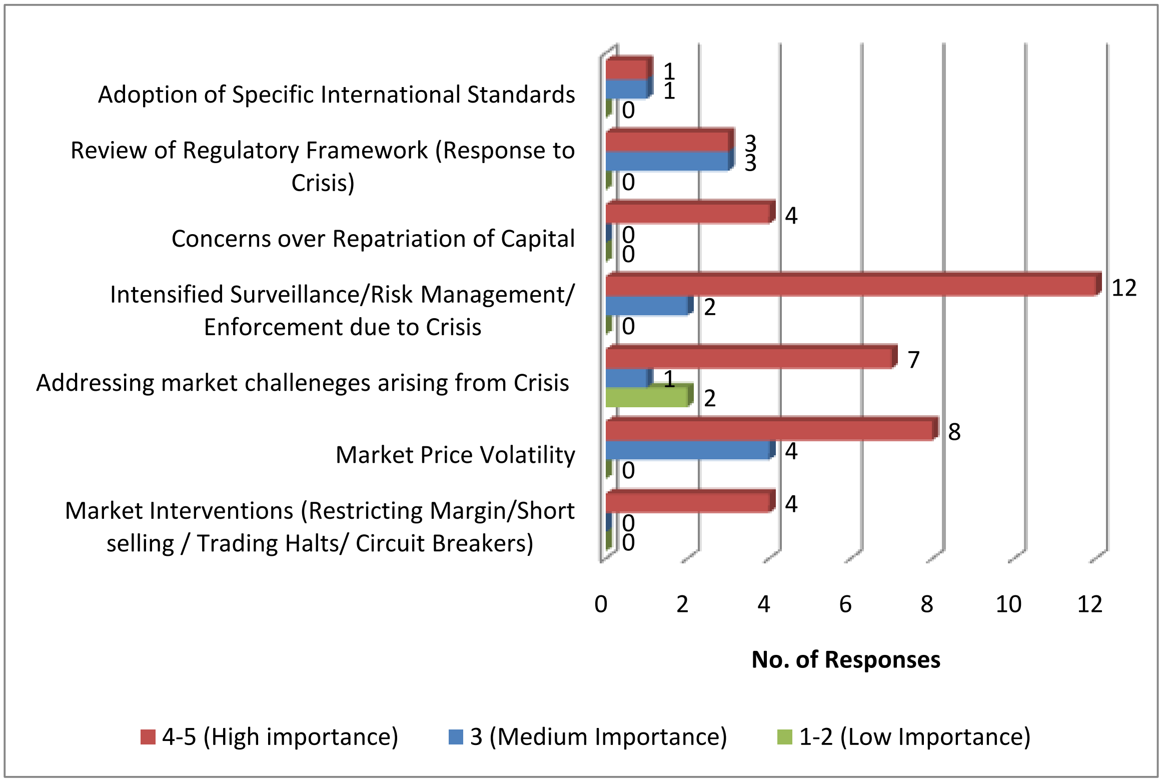

Figure 21 Key crisis specific responses to Question 1 to 4

Summary of Results

The highest frequency of concerns relating to the crisis revolved around the need for increased oversight and surveillance of market participants to ensure the market volatility did not result in increased credit and liquidity risk and therefore systemic instability.

In addition, the impact of wider economic constraints, although strictly not within the control of securities regulators, was reflected as a strong area of concern given the likely impact of these macroeconomic shocks on capital markets development.

3. Presentation of Responses to Questions 5, 6 and 7

3-1. Preliminary issues

Question 5 and 6 were closed questions that included issues directly related to the financial crisis. These questions were directly tabulated and no pooling or any manipulation was required. Due to the fact that closed questions may or may not consider all the relevant topics, the "other" option was available in both questions 5 and 6 and furthermore, question 7 was an open question that was included with the sole purpose of enabling additional comments on relevant issues not included in questions 5 and 6.

3-2. Presentation of responses to Question 5

Question 5 was labelled as one of the "Topical Questions" and sought responses on the specific sources of instability and financial contagion that had been identified in each jurisdiction. As detailed in the Approach to the Survey, Question 5 listed 12 potential heads of potential contagion including selected topics such as speculation in derivatives markets, exchange rates adjustments and exposure to risky assets, among others. Jurisdiction were asked to indicate on a scale of 1 (not important) – 5 (extremely important) the importance of each of those sources in their respective jurisdictions. The question also provided an option for responders to "indicate (if any) other sources of instability not listed above including their relative importance."

In presenting the results of the responses on the nature and importance of the sources of instability and financial contagion the grading scale of 1-5 was broken into 3 ratings categories: 1-2 (Low important), 3(Moderate importance), and 4-5 (Very to extremely Important) for ease of identification of trends.

Where a jurisdiction failed to indicate an importance rating for any of the listed heads, this has been reported as a non-response for purposes of statistical review. On the other hand, where a jurisdiction has noted an issue as being "Not Relevant" or "Not Applicable" this has been included in the calculation of responses of ratings 1-2 (Not Significant).

Where jurisdictions listed "other" sources of instability these have been set out in the results with an indication of the frequency of similar responses.

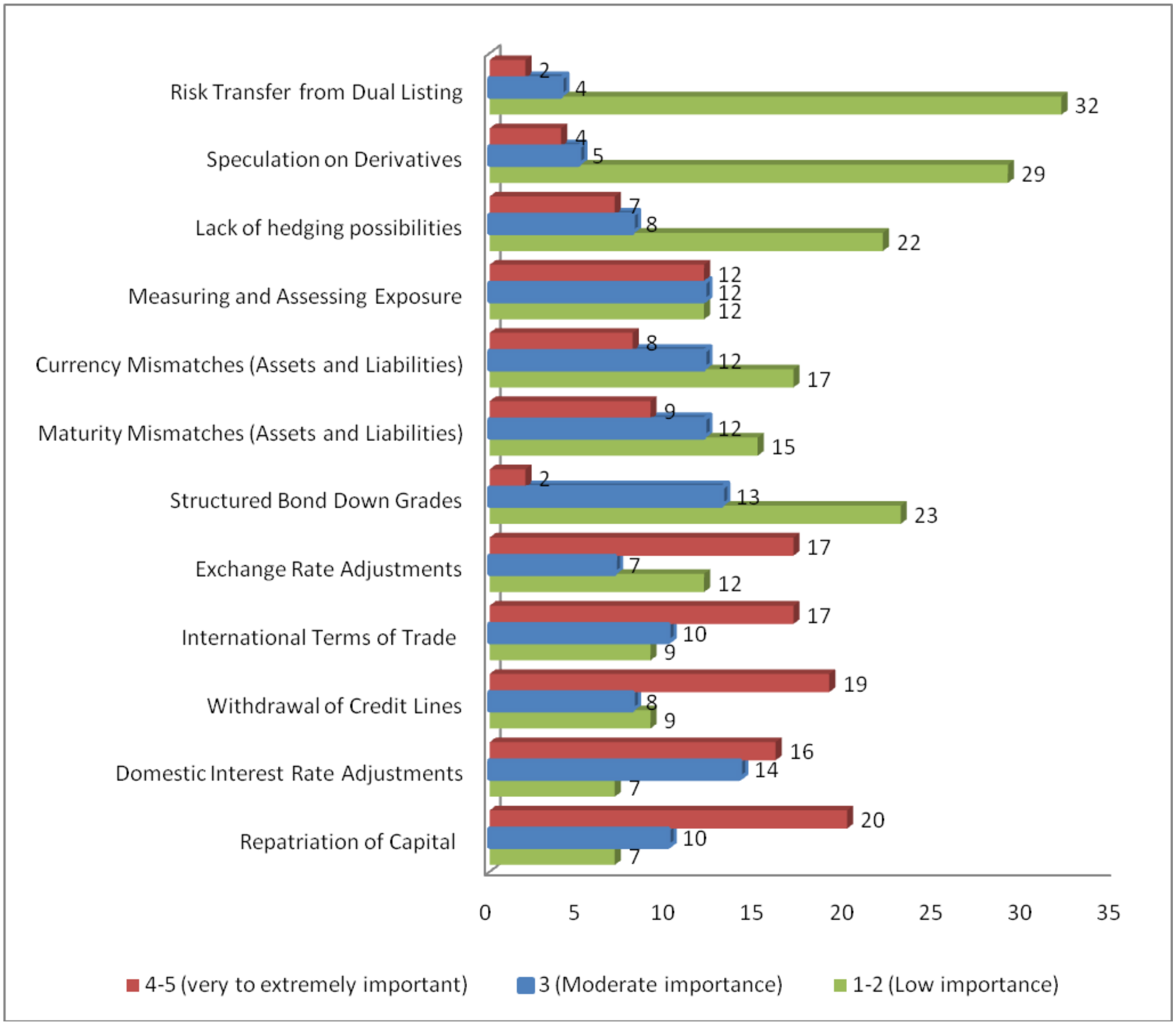

Figure 22 **Comparative trends in sources of instability**

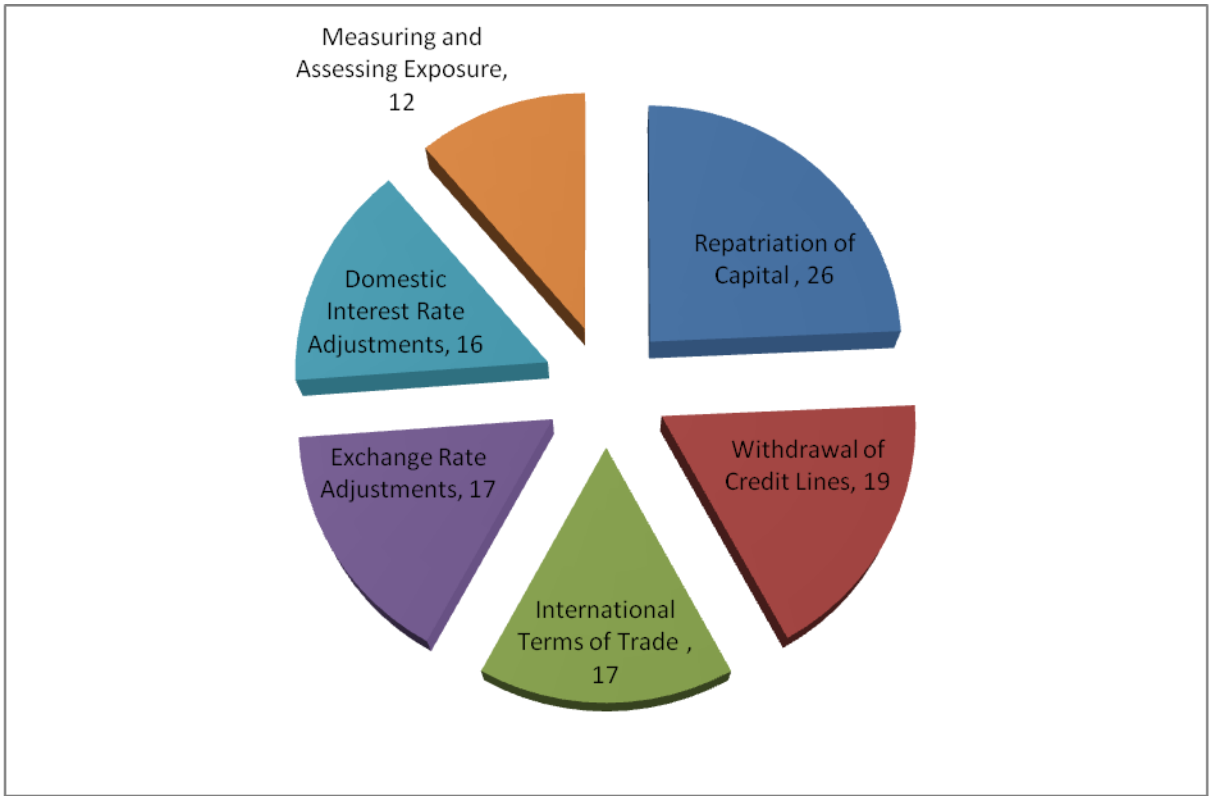

Figure 23 Key sources of instability

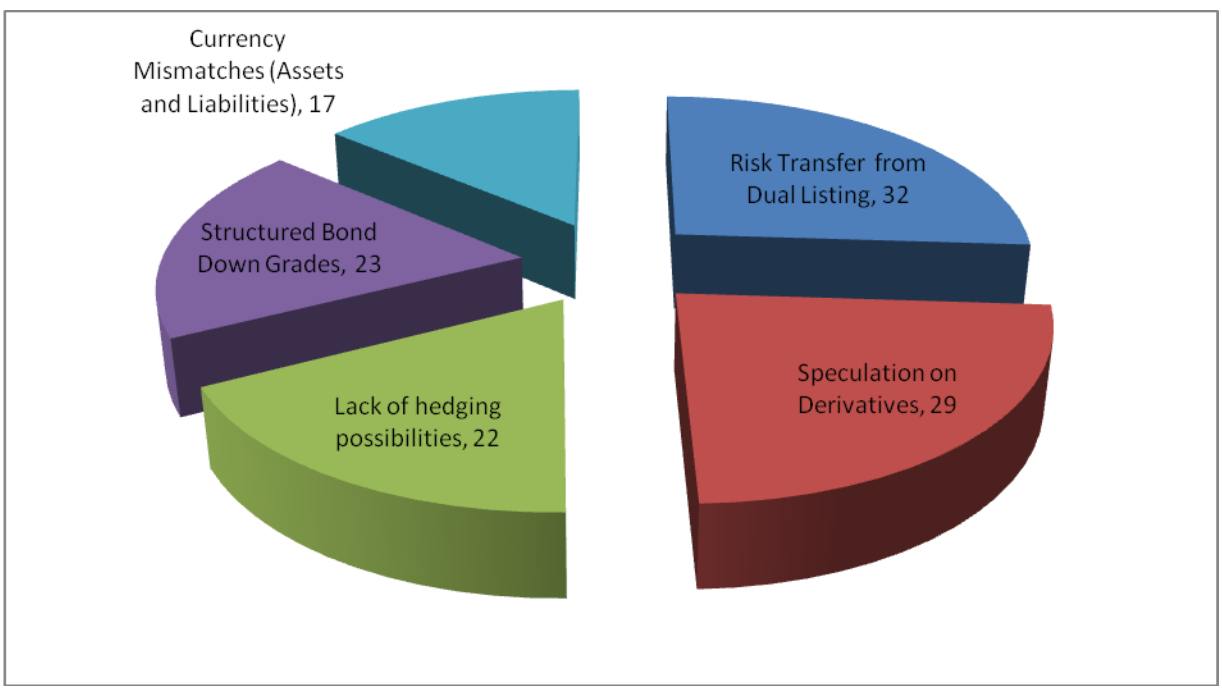

Figure 24 Factors noted as not significantly impacting stability

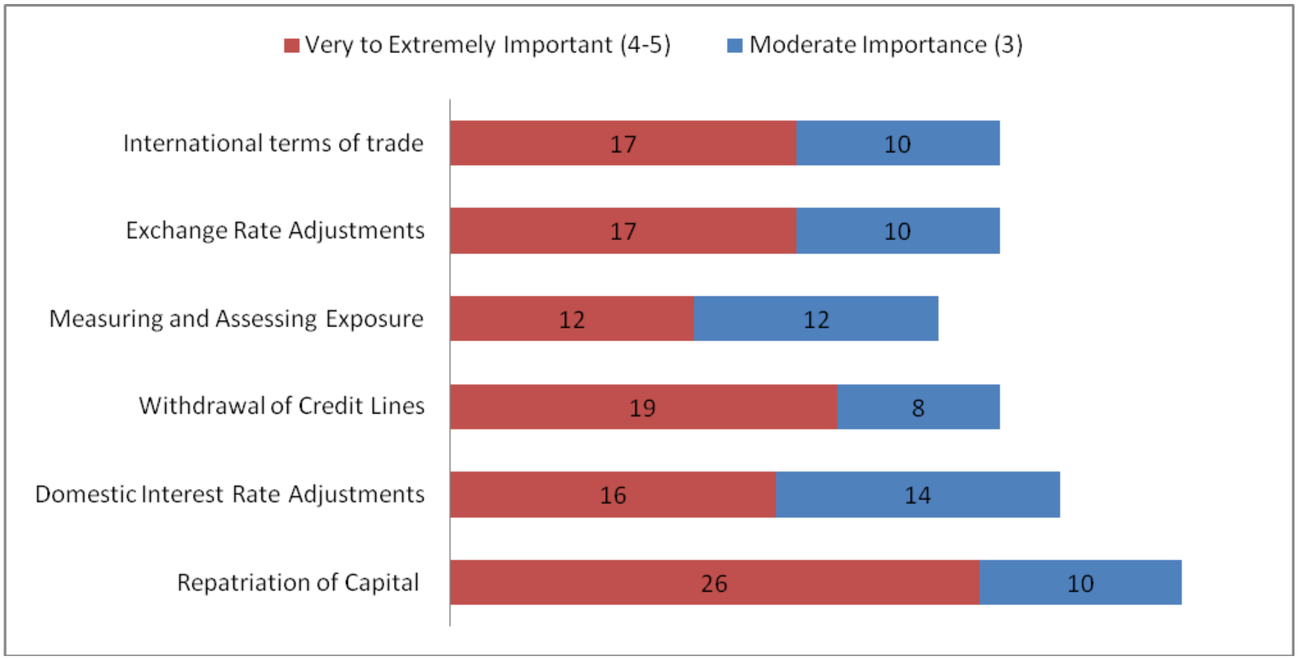

Figure 25 **Moderate to very/extremely important sources of instability**

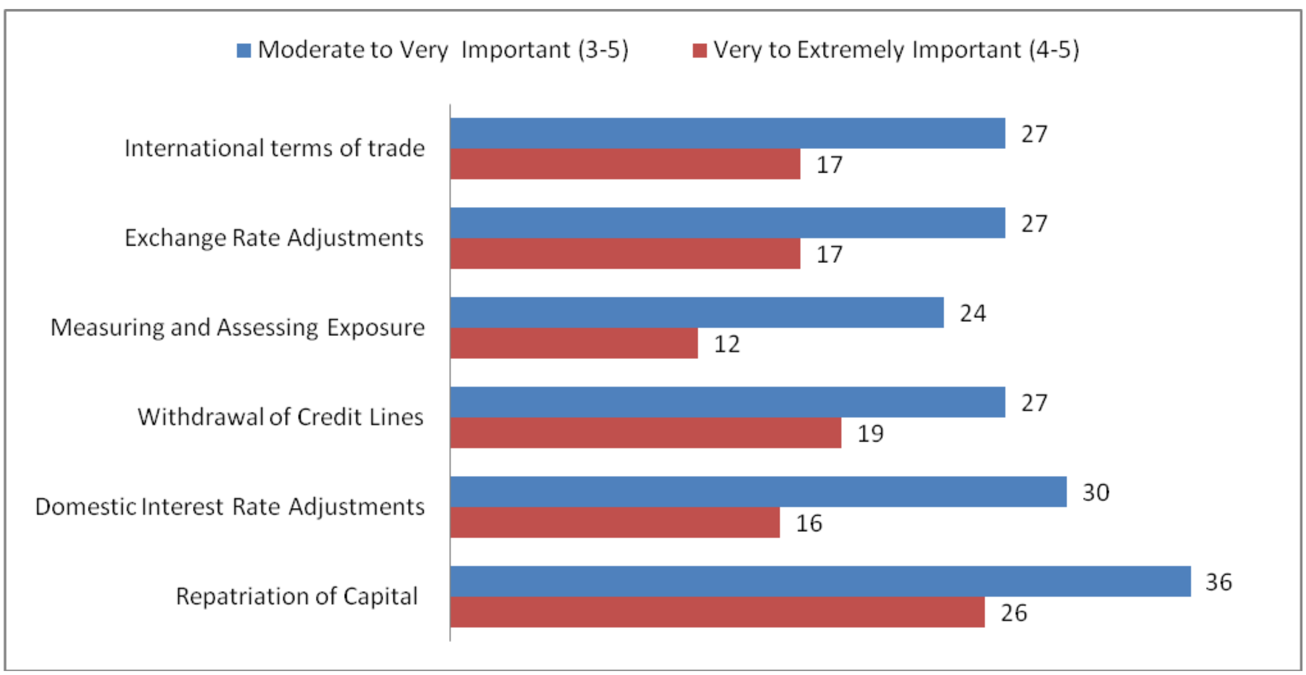

Figure 26 **Sources of instability based on importance ranking**

3-2-1. Other Sources of Instability Identified

The following issues were repeatedly mentioned by a number of jurisdictions as being significant contributors to the market instability in their jurisdictions:

(1) Decrease in new issues and IPO's and low liquidity from reduced trading activity: (6 Jurisdictions: European, Inter America, Africa/Middle East regions)
(2) The decrease in Remittances from abroad: (5 jurisdictions: Africa/Middle East, European, Inter America regions)
(3) Negative impact on stability and operations of local branch offices of international entities: (3 Jurisdictions: Africa/Middle East and Inter America regions)
(4) Commodity price volatility: (3 Jurisdictions: Asia Pacific, Africa/Middle East, Inter America regions)
(5) Inadequate investor education leading to loss of investor confidence and poor controls against miss-selling of complex products to unsophisticated investors: (2 Jurisdictions: Africa/Middle East regions)
(6) Concerns over bond issuers' ability to meet their obligations due to impact of economic slowdown on revenues: (1 Jurisdiction: Africa/Middle East region)
(7) Political Instability and Uncertainty: (2 jurisdictions (Asia Pacific region)
(8) Increased unemployment levels (1 Jurisdiction (Asia Pacific region)
(9) Exposure to hedge Fund Fraud (1 jurisdiction (Inter America region)

Summary of Results

(Largest source of instability)
— 1st major issue (68%, 26 jurisdictions): repatriation of capital
— 2nd major issue (50%, 19 jurisdictions): withdrawal of credit lines
— 3rd major issue (45%, 17 jurisdictions): worsening terms of trade in international trade and unstable exchange rate, respectively

(Lowest Rated sources of instability)
— 1st major issue (84%, 32 jurisdictions): risk transfer from dual listings
— 2nd major issue (76%, 29 jurisdictions): speculation on derivatives
— 3rd major issue (60%, 23 jurisdictions): downgrade of structured bond

(Source of instability combining importance rates from 3 to 5)
— 1st major issue (95%, 36 jurisdictions): repatriation of capital
— 2nd major issue (80%, 30 jurisdictions): Domestic Interest Rate Adjustment
— 3rd major issue (71%, 27 jurisdictions): worsening terms of trade in international trade and unstable exchange rate, respectively.

3-3. Presentation of Responses to Question 6

Question 6 was focused on identifying what measures jurisdictions had taken in response to the instability in their financial markets. The Survey indicated 8 distinct potential actions that may have been taken and then provided an option for jurisdictions to indicate any "other" measures they may have taken. Unlike in previous questions, jurisdictions were not requested to rate the importance or significance of their responses. Therefore, the results merely indicate the frequency with which each measure was identified as having been taken. In the case of "other" measures that were indicated, these have been specifically set out in the responses with an indication of the frequency with which they were noted. As with other categories, any one jurisdiction may have applied a variety of measures to deal with the instability and therefore the frequency of responses is not directly tied to the number of respondents.

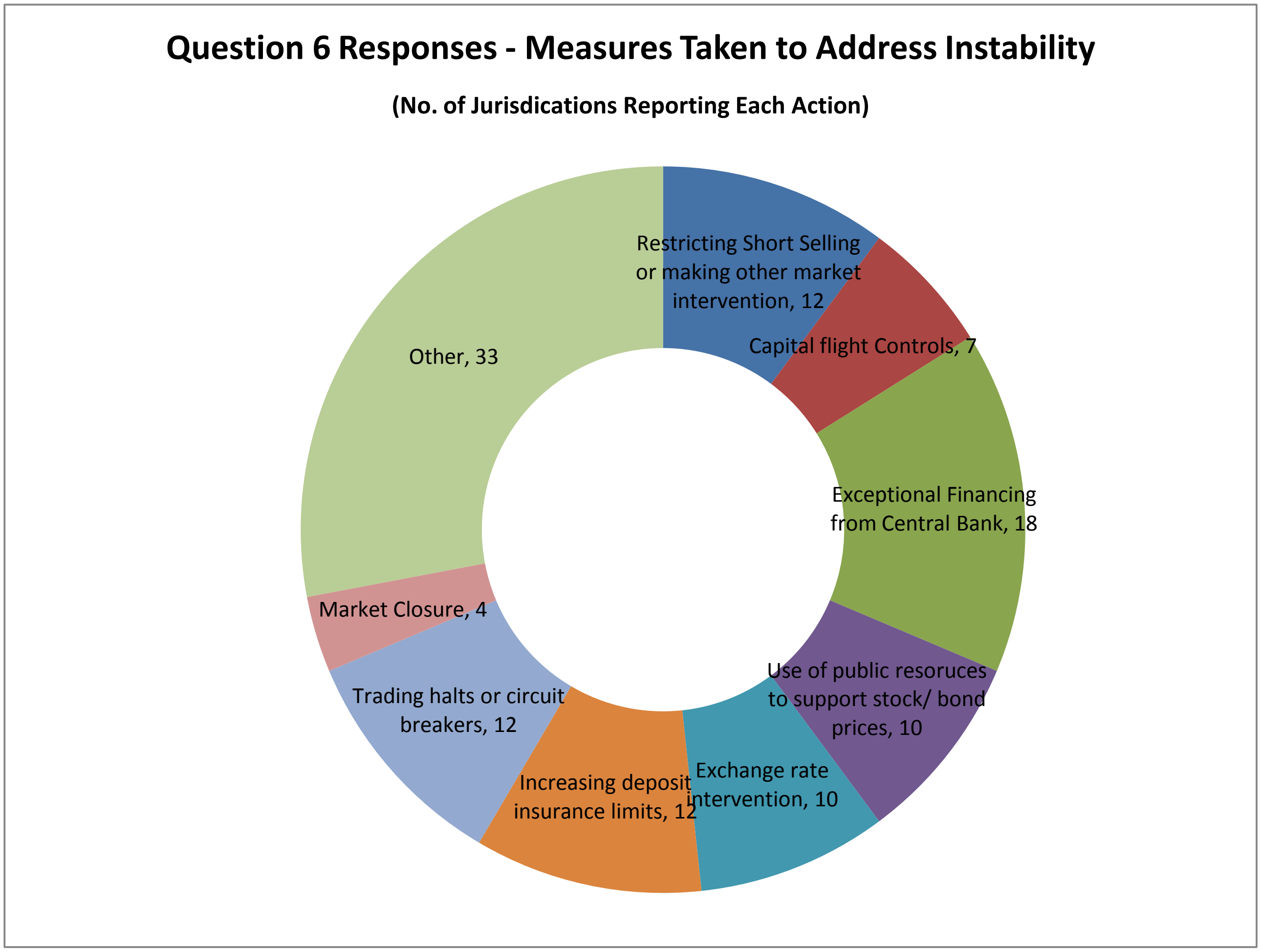

Figure 27 **Question 6 Responses - Measures Taken to Address Instability**

3-3-1. Other Actions and Interventions Adopted

In addition to the variety of actions that were set out in the questionnaire the following interventions and responses were also reported: (Measures by central government targeted at the banking sector or general fiscal and macroeconomic policy have not been included)

(1) Increasing oversight on completeness and timeliness of intermediary reporting obligations with particular reference to counter party risk, portfolio diversification and exposure: (7 jurisdictions Africa/Middle East, European, Inter America regions)
(2) Increased surveillance to identify potential market abuses and operational lapses and strengthening of corporate governance compliance: (4 jurisdictions: Africa/Middle East, Asia Pacific, European regions)
(3) Amendment of relevant provisions to allow for share buy-backs by listed companies to improve liquidity and introduction of requirements to issue cash dividends to investors: (4 Jurisdiction: Africa/Middle East, Asia Pacific regions)
(4) Monitoring and in some case suspending or prohibiting sales and/or redemptions of Collective Investment Scheme products and/or provision of government support to Mutual Fund schemes: (3 jurisdictions: European, Asia Pacific regions)
(5) Increased monitoring of market price volatility and liquidity: (2 jurisdictions: Africa/Middle East, European regions)
(6) Development of new regulations to govern debt markets and/or securitization transactions: (2 jurisdictions: Africa/Middle East, European regions)
(7) Introduction of accelerated listing procedures: (1 jurisdiction: Inter America region)
(8) Increased investor education initiatives: (1 jurisdiction: Africa/Middle East region).

Summary of Results
(Measures Taken)

— 1st major issue (47%, 18 jurisdictions): exceptional measures
— 2nd major issue (32%, 12 jurisdictions): trading halts and circuit breaker, increase in the deposit insurance limit, and restriction of short selling and other market intervention.

4. Comparison of Sources of Instability ideintfied (Q 5) and the measures taken to reduce instability (Q6)

The following links may be drawn between the responses on sources of instability that were highlighted in question 5 and the specific measures and actions being undertaken by jurisdictions to reduce instability under question 6.

4-1. Source of Instability

Capital flight through repatriation as well as loss of investor confidence resulting in market price instability (noted as extremely important source of Instability by 20 Jurisdictions and of Moderate importance by 10 jurisdictions)

Measures

a. Introduction of restrictions on capital flight including exchange controls (Introduced by 7 jurisdictions)
b. Setting up market stabilisation funds to maintain investment in the local markets to support falling prices (introduced by 6 jurisdictions);
c. Introduction or refinement of circuit breaker thresholds (Noted by 12 jurisdictions);

d. Introduction or broadening of rules on share buy backs (Noted by 3 jurisdictions); and
e. Reduction in taxes on securities transactions (Introduced by 2 jurisdictions).

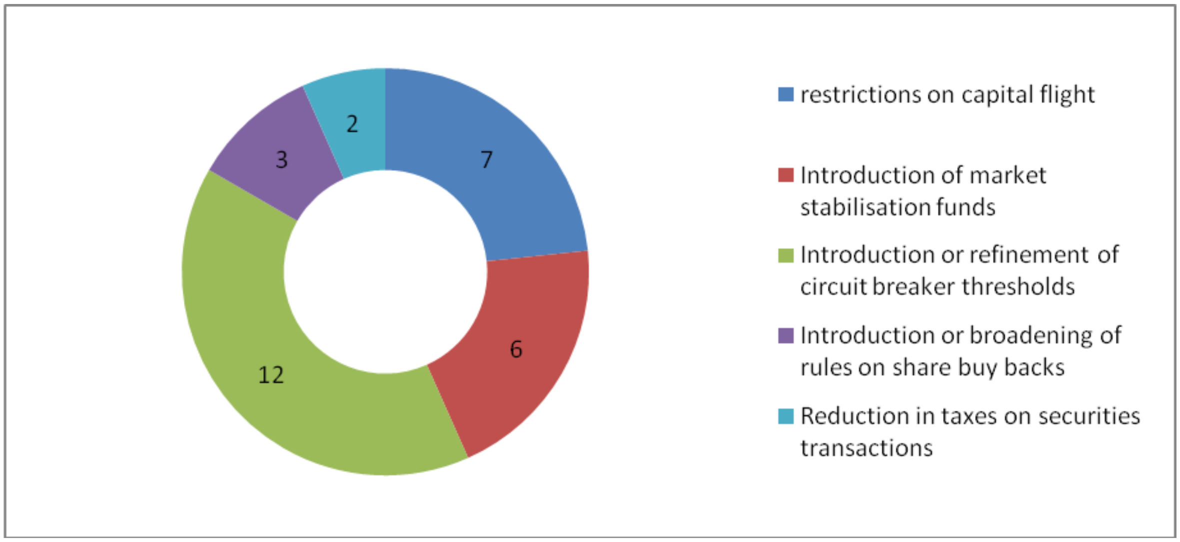

Figure 28 Measures to address heavy repatriation of capital

4-2. Source of Instability

Fiscal instability, economic constriction (including deteriorating terms of trade (noted by 17 jurisdictions as very or extremely important and of moderate importance by 10 jurisdictions), currency exchange rate fluctuations (noted as very or extremely important by 17 jurisdictions and of moderate importance by 7 jurisdictions), currency mismatches (noted as very or extremely important by 8 jurisdictions and of moderate importance by 12 jurisdictions) and withdrawal of credit lines (noted as very or extremely important by 19 jurisdictions and of moderate importance by 8 jurisdictions):

Measures:

a. Interventions on exchange rates (noted by 10 jurisdictions);
b. Increasing deposit insurance requirement (noted by 12 jurisdiction);
c. Introduction of financing lines for exporters experiencing delays in credit recovery (noted by 2 jurisdiction); and
d. Introducing financing lines for non-resident enterprises to support foreign direct investment (noted by 1 jurisdiction).

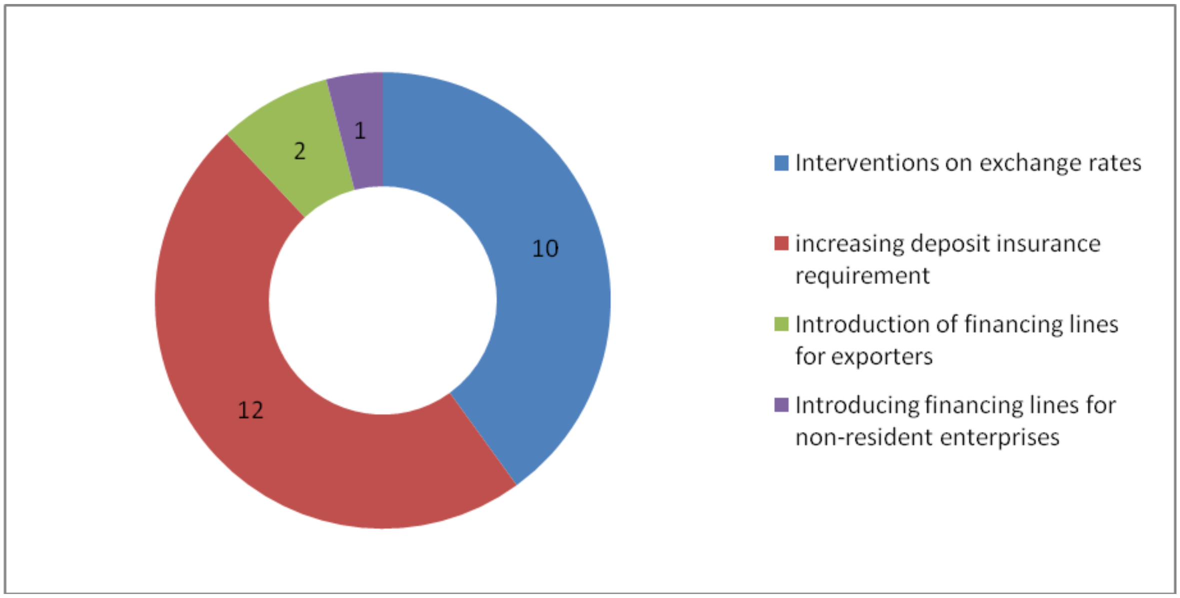

Figure 29 **Measures to address fiscal, monetary and economic instability**

4-3. Source of Instability

Concerns over intermediary credit and liquidity exposure levels and systems to effectively measure and assess exposures to prevent contagion (Noted as very or extremely important by 12 jurisdictions and of moderate importance by 12 jurisdictions)

Measures:

a. Introductions of restrictions on short selling in an attempt to limit potential intermediary exposures from falling securities prices (noted by 12 jurisdictions).
b. Closer supervision of intermediaries on (noted by 11 jurisdictions):
   i. Exposures including stricter prudential oversight and reporting requirements with specific regard to large concentrations in single stock futures; and
   ii. Increased surveillance and investigation of market irregularities.

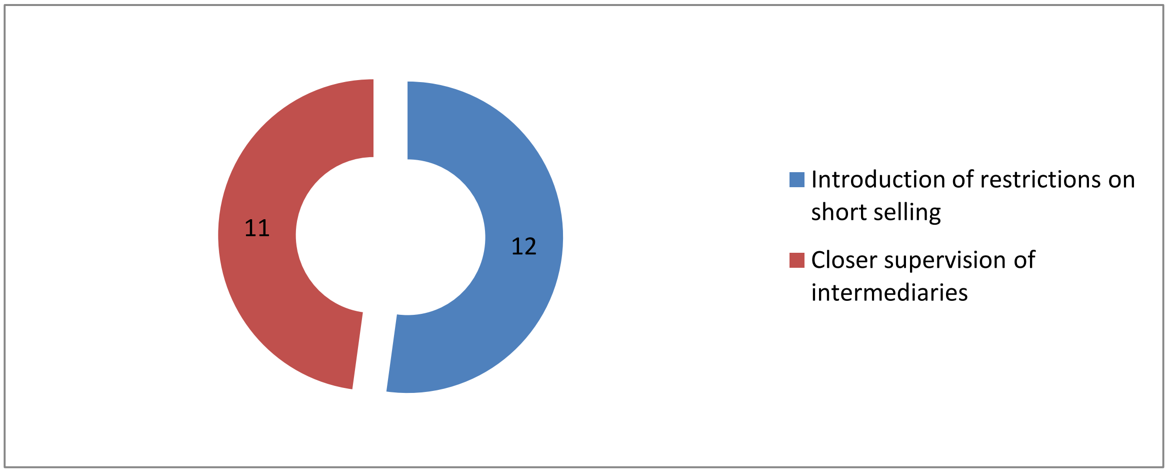

Figure 30 **Measures to address intermediary exposure levels**

4-4. Source of instability

Substantial decline in Investor Confidence leading to poor market liquidity and heavy redemptions of mutual products

Measures:

a. Providing financial and regulatory support to mutual funds to cover increased exposure from wide spread redemption and increasing oversight and monitoring of unit investments including suspending unit sales (noted by 3 jurisdictions);
b. Increasing deposit guarantee requirements (noted by 12 jurisdictions) and in one case introducing explicit government guarantee till the year 2010 on deposits relating to all domestic and locally incorporated foreign banking institutions;
c. Introducing requirements for listed companies to pay out consistent cash dividends (noted by 1 jurisdiction); and
d. Rescheduling investor loans (noted by 1 jurisdiction).

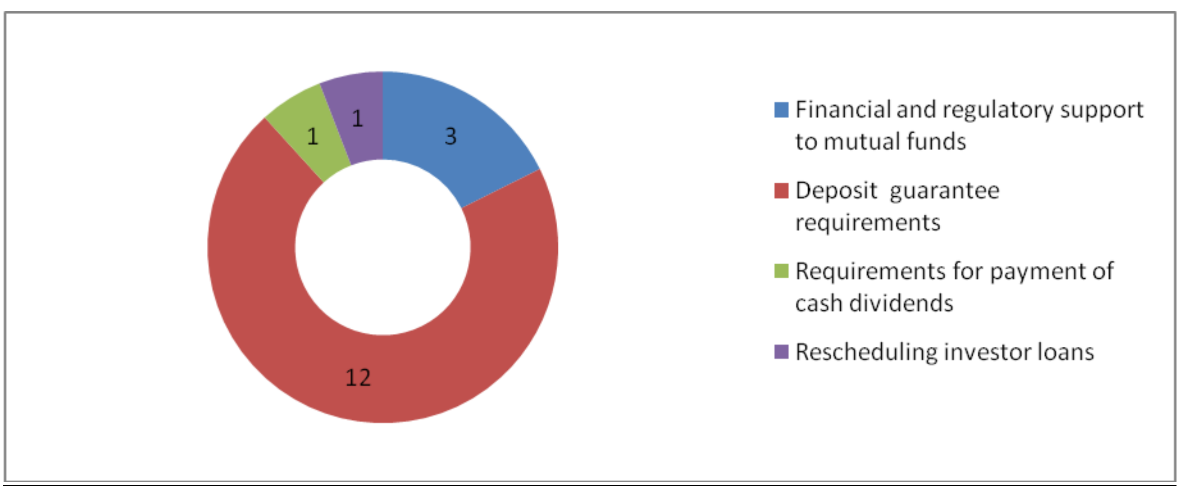

Figure 31 **Measures to address decline in investor confidence**

5. Comparison of Challenges noted in Questions 1 to 4 relating to the Crisis and the Actions and Responses noted in Question 6

Considering the Questionnaire was not explicit regarding whether responses to questions 1 to 4 should focus on the impact of the financial crisis on jurisdictions perspectives on the challenges they will face, a number of trends may nonetheless be identified in the challenges highlighted in questions 1 to 4 and the actions that were indicated to have been taken in question 6.

In setting out the challenges faced in the last 12 months and foreseen in the next 12 months, the highest frequencies were noted in the following categories:

(1) The need for increased surveillance of market intermediaries (12 references at high importance and 2 references at moderate importance) with particular focus on:
   a. Credit and liquidity risks arising from market price volatility and low liquidity in markets;
   b. Strengthening risk based supervision models;
   c. Ensuring proper conduct of business and disclosure of relevant information to investors; and
   d. Identification of potential market abuses.

(2) Dealing with market price volatility (8 references at high importance and 4 at moderate importance)

(3) Addressing economic and market related constraints due to the crisis (7 References at high importance and 1 at moderate importance)

(4) Concerns over repatriation of capital by foreign investors; (4 references at high importance)

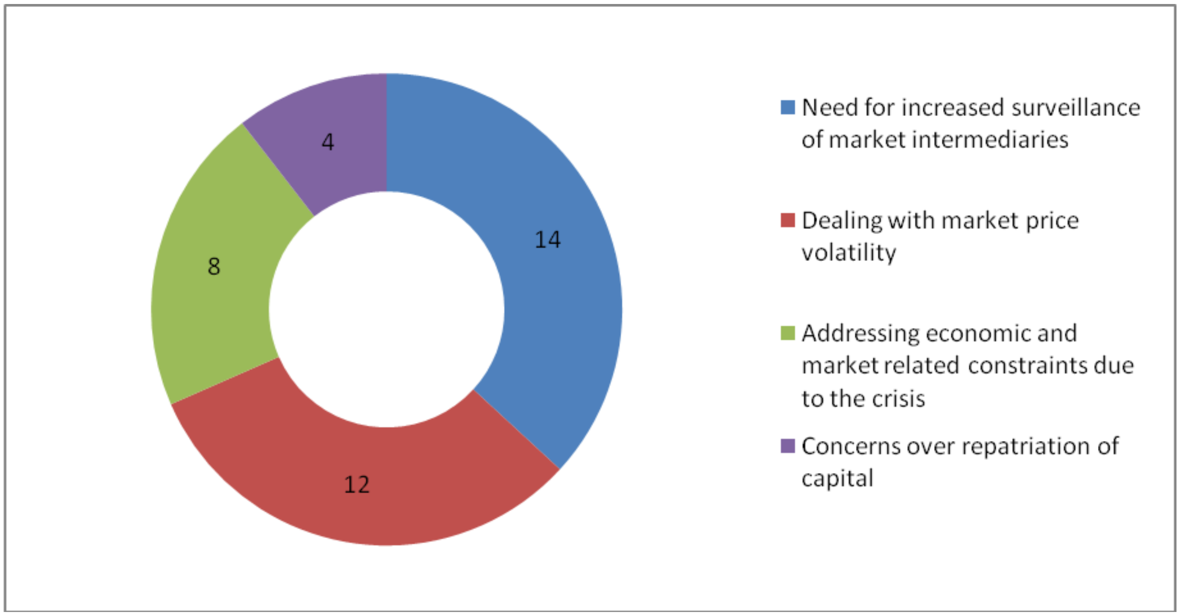

Figure 32 Key challenges identified in last and next 12 months

5-1. Connections between Challenges noted and Measures introduced

(1) A total of 14 reported actions relating to the Intensified Surveillance /Risk Management/ Enforcement;

   a. 7 reports of increasing oversight on completeness and timeliness of intermediary reporting obligations with particular reference to counter party risk, portfolio diversification and exposure;
   b. 4 reports of increased surveillance to identify potential market abuses and operational lapses and strengthening of corporate governance compliance; and
   c. 2 reports of increased monitoring of market price volatility and liquidity impacts on intermediaries.

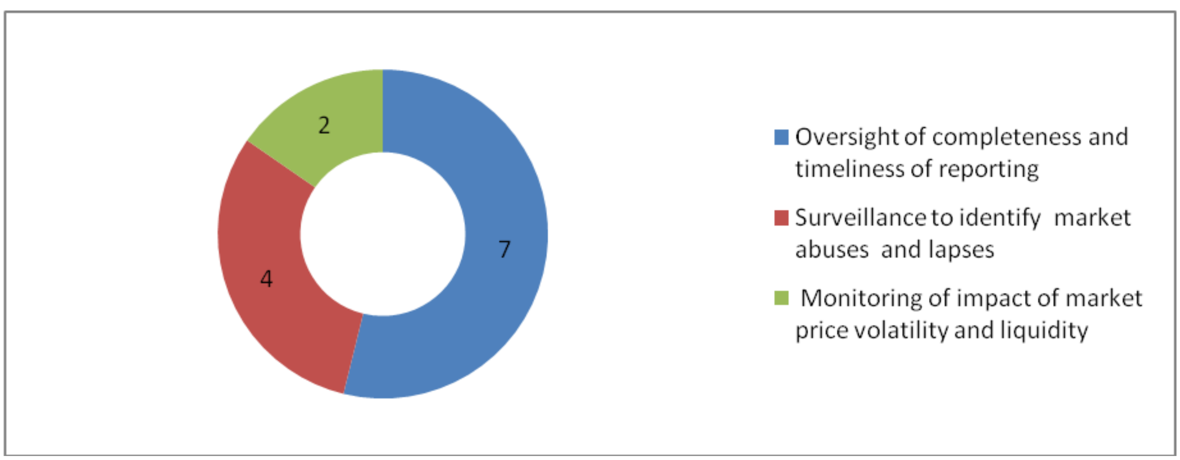

Figure 33 Measures to strengthen intermediary oversight systems

(2) In conjunction with the above and in response to market price volatility:

a. There were 28 reports of market interventions through a range of actions;
   i. Market closures (4 reports);
   ii. Trade halts and circuit breakers (12 reports); and
   iii. Imposition of restrictions on short selling or other similar market interventions (12 reports).

b. There were 6 reports of utilizing public funds to support securities prices which was effected through the establishment of market stabilization funds; and

c. There were 3 reports of the introduction of legal amendments to facilitate share buy backs to improve market liquidity.

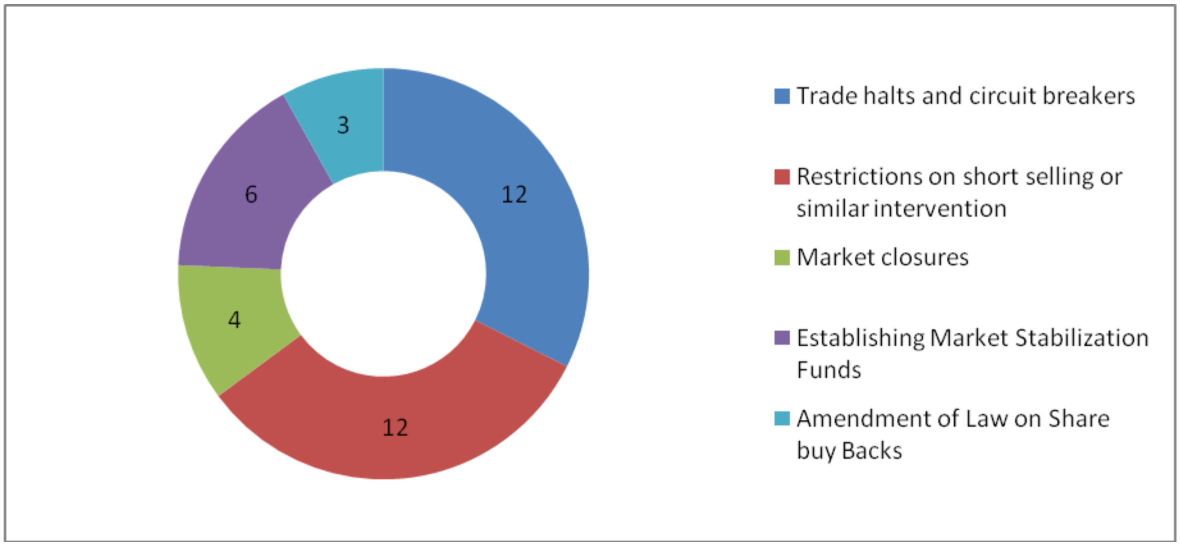

Figure 34 Measures to address market price volatility

(3) In respect of concerns over repatriation of capital

a. There were 7 reports of the introduction of capital flight controls.

(4) In light of the wide spread concerns over the impact of the crisis on economic performance:

a. There were 18 reports of use of exceptional financing from central banks;

b. 12 reports of increasing deposit insurance limits; and

c. 10 reports of exchange rate adjustments.

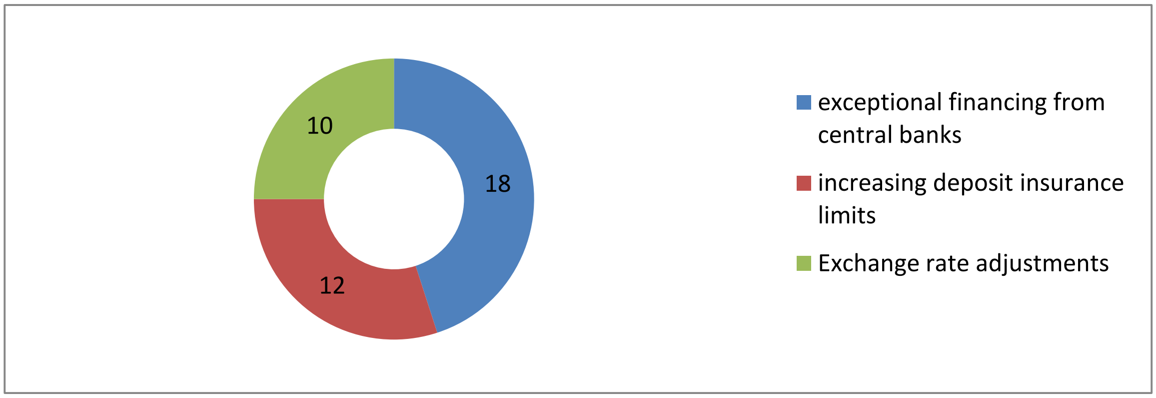

Figure 35 **Measures in respect of the impact of the crisis on economic performance**

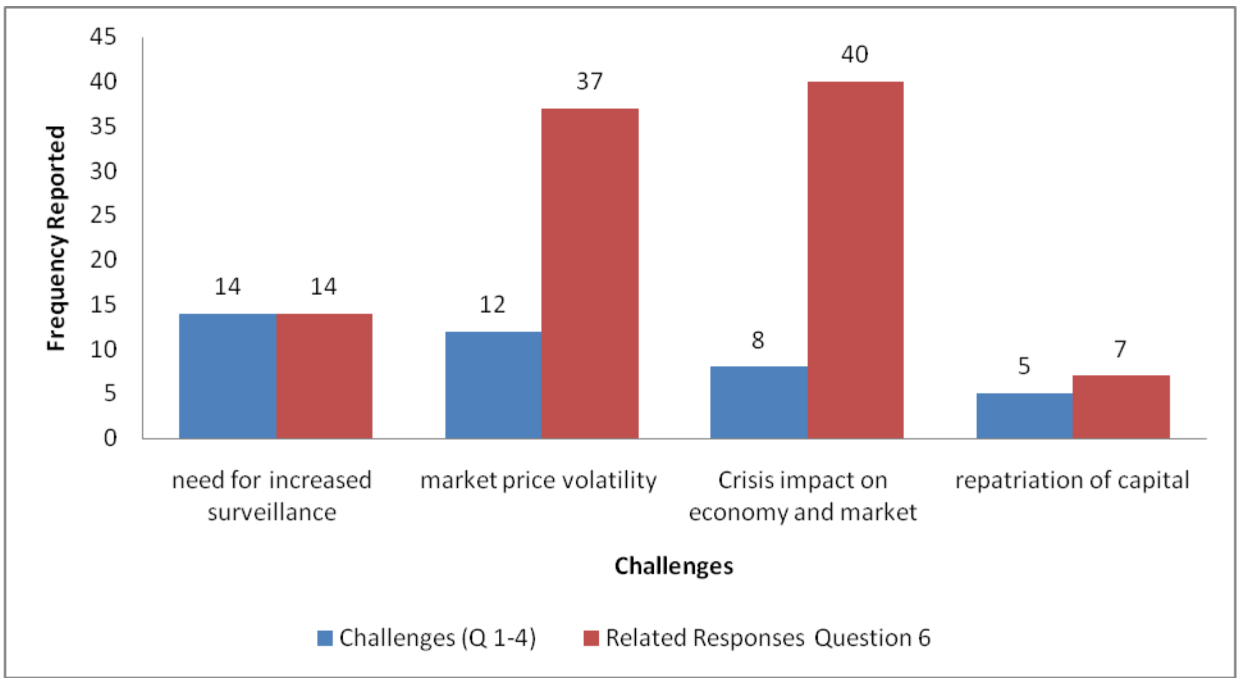

Figure 36 **Comparison of challenges and measures**

6. Presentation of Responses to Question 7

Question 7 was an open question to allow jurisdictions to communicate "any other relevant issues affecting your jurisdiction" that had not been addressed elsewhere in the Survey. In the gross majority of responses, jurisdictions used this question to elaborate on their responses to the previous question 1 to 6. A number of interesting comments and observations have been set out below to give an indication of the diversity of responses within each of IOSCO regions. The comments have been replicated verbatim other than the removal of references to the names of the jurisdictions. Where a comment could not be reasonably displayed without compromising the confidentiality of the responder, it has not been included.

Table 13 **Summary of comments included in question 7**

RESPONDENT JURISDICTION	COMMENTS SUBMITTED
Asia Pacific	Considering the financial impact in foreign markets, local funds which invested in foreign markets are facing high risks of low diversification restriction imposed by the SEC's notification (25% maximum limit of the NAV for each of the four financial products.) The {Regulator} is currently making an adjustment to its notification to pave the way for more diversification in order to diversify risks.
	We do not observe direct or noticeable impact on the {country's} financial market due to the global crisis. The volatility of the market has been significant due to the issues within the jurisdiction, which are being studied and possible regulatory and policy measures are being adopted to rectify the issues.
	We have several other issues in terms of Staff Capacity and the technical skills to carry out proper regulation of the Capital Market.
	The {country's} financial system is not directly exposed to the toxic distressed assets of the developed world as {local} financial entities have very limited foreign presence as also due to regulatory restrictions in this regard. However, there is perceptible indirect impact on the {countries} economy because of recessionary global conditions. The indirect impact is felt both through trade and capital flows. {Local} firms may also experience difficulties in raising money abroad. Monetary and Fiscal measures have been undertaken in India to address the problem of liquidity and slowdown in growth rate of economy.
European	Lack of IPO's
	Central-Eastern European regional risk (economic & financial sector conditions)
Africa Middle East	The most significant cause of concern within areas regulated by the XXX is the ability of corporate bond issuers to meet their obligations to bond holders over the next two years. There has been a significant shift in the domestic credit market over the last few years with many companies choosing to issue debt through the stock exchange rather than take bank credit. Many of these were first time issuers. The combination of the reduced cashflow companies will enjoy during the recession together with the increased difficulty in obtaining new bank credit during the ongoing credit crisis means that many issuers may face difficulties in repaying bonds that are due to mature in the coming two years.
	Trade in non-traditional exports have slowed down as some importers have cancelled their orders.

	The {Authority} put in place a regime for SPVs (to facilitate securitization) but there is little securitization activity as yet, although we have an applicant whose business model involves securitization. Emerging markets, generally, are highly sensitive to a global slowdown and also face inflation risks. Many emerging markets, at the corporate and sovereign levels, have borrowed in short-term markets for longer-term infrastructure and development projects. Laggard policy responses are a big risk for emerging markets. For the {the country}, the outlook is driven by the price of oil, the domestic real estate sector and the availability of foreign financing and short term sources to bridge financial needs. {The Country} will balance its budget in 2009 and most spending will be on infrastructure, unlike many developed economies where the focus is consumer spending. Finally, clearly it is right to look at securitization and other aspects of the financial system and financial regulation. But there is a growing consensus that global imbalances leading to liquidity, the expansion of credit (to many who could not afford it), historically low interest rates and investors' search for yield contributed as much to the current financial crisis as failures in financial regulation. In other words, macroeconomic policies and tools also need to be addressed in tandem.
Interamerica	Low oil barrel prices: The oil production is the most important resource to generate income for {the country}, therefore the fall in the oil price is going to cause a very big problem for our country's budget for 2009. Immigrant Remittance: The second item of our income is the money that the immigrants send to {the country} from the countries abroad. Those are decreasing in 15% for this year, and the tendency is to decrease more.
	Prudential rules are helping to minimize the credit risk e.g. additional provisions and sophisticated risk measurement models.
	The financial turmoil has raised the internal debate about the problems that "fair value" has as a mechanism for assets valuation, on bear markets and the eventual impact that the adoption of IFRS could have on {local} corporations. Also, a debate has been raised on the effectiveness of Risk Based Surveillance, given the corporation's management behavior observed on the events that trigger the financial crisis.
	Severe draught affecting agricultural production coupled with conditions of agricultural commodity prices and demand Prospects of slowdown in the face of rather rigid public expenditure commitments.

APPENDIX 2: EMC CHAIRMAN'S TASK FORCE ON FINANCIAL CRISIS

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Chairman
Superintendencia de Valores y Seguros (SVS)
Chile

Ms. Zarinah Anwar
Chairman
Securities Commission (SC)
Malaysia

IOSCO GENERAL SECRETARIAT

Mr. Greg Tanzer
Secretary General

Ms. Isabel Pastor
Senior Advisor

Mr. Paul Muthaura
Emerging Markets Advisor

Mr. Kiyoung Choi
Emerging Markets Advisor

MEMBERS

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Mr. Eduardo Manhães Ribeiro Gomes

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Superintendencia de Valores y Seguros (SVS)

Ms. Macarena Vásquez

Mr. Guillermo Yañez

CHINA
China Securities Regulatory Commission (CSRC)

Mr. YAO Gang
Vice Chairman, International Affairs

COLOMBIA
Superintendencia Financiera de Colombia (SFC)

Mr. Luis Alfonso del Valle
Director de Investigación y Desarrollo

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Mr. Paul Koster
Chief Executive

EGYPT
Capital Market Authority (CMA)

Dr. Ashraf Elsharkawy
Senior Advisor to the Chairman

INDIA
Securities and Exchange Board of India (SEBI)

Mr. C. B. Bhave
Chairman

Mr. Tajinder Singh
Chief General Manager

KOREA
Financial Services Commission (FSC)

Mr. You Sam Choi
Director

Financial Supervisory Service of Korea (FSS)

Mr. Joseph Hwang

MALAYSIA
Securities Commission (SC)

Ms. Neetasha Rauf

Mr. Attila Emam

PAKISTAN
Securities & Exchange Commission of Pakistan (SECP)

Mr. S. Gulrez Yazdani
Executive Director

POLAND
Financial Supervision Authority (FSA)

Mr. Sebastian Bogdan
Deputy Director of the Trading Supervision Department

SOUTH AFRICA
Financial Services Board (FSB)

Mr. Dube Tshidi
Executive Officer

Mr. Norman Müller
Head, Capital Markets

Ms. Kamcilla Naidoo
Legal Manager, Capital Markets Department

CHINESE TAIPEI
Securities and Futures Bureau, Financial Supervisory Commission (SFB)

Mr. Yuan-Ping Tsai
Senior Auditor

SRI LANKA
Securities and Exchange Commission (SEC)

Ms. Prabhashini Samarakoon
External Relations & Market Development

TUNISIA
Conseil du Marche Financier (CMF)

Mr. Mohamed Ridha Chalghoum
Chairman

UGANDA
Capital Markets Authority (CMA)

Mr. Japheth Katto
Chief Executive Officer

UNITED ARAB EMIRATES
Securities and Commodities Authority (SCA)

Mr. Hasan Yassin
Senior Advisor

Mr. Mohammed Al Fahim
Executive Coordinator for International Relations

APPENDIX 3: THE CORE TASK FORCE TEAM

Superintendence of Securities and Insurance, Chile.

Guillermo Larraín, Chairman

Macarena Vasquez, International Affairs

Guillermo Yañez, Vice-Head Research and Market Development Division

Maria Jose Melendez, Analyst Research and Market Development Division

Securities Commission, Malaysia.

Zarinah Anwar, Chairman

Attila Emam, General Manager and Head, Risk Management Department

Neetasha Rauf, Assistant General Manager International Affairs Department

Yeoh Su-Yinn, Assistant Manager, Risk Management Department

Eileen Wong, Manager, International Affairs Department

Mohd Afiq Hassan Mohd. Ayub, Senior Executive, Risk Management Department

IOSCO General Secretariat

Greg Tanzer, Secretary General

Isabel Pastor, Senior Advisor

Paul Muthaura, EMC Advisor

Kiyoung Choi, EMC Advisor

APPENDIX 4: GDP and market capitalization for the sample jurisdictions

TOTAL GDP (US$ BILLIONS)		
INTERAMERICA		
ARGENTINA	260.0	
BERMUDA	NA	
BRAZIL	1,313.6	
CHILE	163.9	
COLOMBIA	171.6	
ECUADOR	44.2	
URUGUAY	23.0	
TOTAL INTERAMERICA	**1,976.2**	**11%**
AFRICA MIDDLE EAST		
EGYPT	127.9	
GHANA	14.9	
ISRAEL	161.9	
MOROCCO	73.4	
NIGERIA	166.8	
OMAN	40.1	
SOUTH AFRICA	282.6	
TUNISIA	35.0	
UNITED ARAB EMIRATES	192.6	
WAMU	7.0	
TOTAL AFRICA MIDDLE EAST	**1,102.3**	**6%**
ASIA PACIFIC		
CHINA	3,526.14	
INDIA	1,099.0	
MALAYSIA	186.5	
MONGOLIA	3.9	
PAKISTAN	143.8	
PAPUA NEW GUINEA	6.0	
SOUTH KOREA	957.1	
SRI LANKA	30.0	
TAIWAN	383.3	
THAILAND	245.7	
TOTAL ASIA PACIFIC	**6,581.3**	**38%**
EUROPEAN		
HUNGARY	138.4	
FYR MACEDONIA	7.5	
MONTENEGRO	3.0	
POLAND	420.3	
ROMANIA	166.0	
SLOVENIA	46.1	
TURKEY	663.4	
CZECH REPUBLIC	175.3	
TOTAL EUROPEAN	**1,619.9**	**9%**
TOTAL IN SAMPLE	**11,279.7**	**65%**
TOTAL EMERGING WORLD	**17,336.1**	**100%**

Source: IMF 2007

Total Market Cap (US$ Millions)		19,347
INTERAMERICA		
ARGENTINA	565,447.2	
BERMUDA	2,521.9	
BRAZIL	1,398,721.0	
CHILE	208,180.8	
COLOMBIA	90,575.2	
ECUADOR	NA	
URUGUAY	NA	
TOTAL INTERAMERICA	2,265,446.1	12%
AFRICA MIDDLE EAST		
EGYPT	125,648.5	
GHANA	1,435.0	
ISRAEL	181,451.4	
MOROCCO	73,461.2	
NIGERIA	79,024.3	
OMAN	21,680.8	
SOUTH AFRICA	455,875.2	
TUNISIA	5,204.7	
UNITED ARAB EMIRATES	206,298.3	
WAMU	NA	
TOTAL AFRICA MIDDLE EAST	1,150,079.3	6%
ASIA PACIFIC		
CHINA	4,459,480.0	
INDIA	1,814,993.8	
MALAYSIA	324,446.4	
MONGOLIA	NA	
PAKISTAN	70,591.4	
PAPUA NEW GUINEA	NA	
SOUTH KOREA	1,103,336.4	
SRI LANKA	7,504.3	
TAIWAN	701,111.7	
THAILAND	212,942.7	
TOTAL ASIA PACIFIC	8,694,406.6	45%
EUROPEAN		
HUNGARY	46,066.0	
FYR MACEDONIA	NA	
MONTENEGRO	NA	
POLAND	208,357.3	
ROMANIA	40,568.4	
SLOVENIA	28,120.2	
TURKEY	281,962.0	
CZECH REPUBLIC	74,511.3	
TOTAL EUROPEAN	679,585.1	4%
TOTAL IN SAMPLE	**12,789,517.2**	66%
TOTAL EMERGING WORLD	**19,346,686.6**	

Source: Bloomberg

Market Capitalization as percentage of GDP

INTERAMERICA	Market Capitalisation/GDP
ARGENTINA	2.17
BERMUDA	NA
BRAZIL	1.06
CHILE	1.27
COLOMBIA	0.53
ECUADOR	NA
URUGUAY	NA
TOTAL INTERAMERICA	1.15
AFRICA MIDDLE EAST	
EGYPT	0.98
GHANA	0.10
ISRAEL	1.12
MOROCCO	1.00
NIGERIA	0.47
OMAN	0.54
SOUTH AFRICA	1.61
TUNISIA	0.15
UNITED ARAB EMIRATES	1.07
WAMU	NA
TOTAL AFRICA MIDDLE EAST	1.04
ASIA PACIFIC	
CHINA	1.26
INDIA	1.65
MALAYSIA	1.74
MONGOLIA	NA
PAKISTAN	0.49
PAPUA NEW GUINEA	NA
SOUTH KOREA	1.15
SRI LANKA	0.25
TAIWAN	1.83
THAILAND	0.87
TOTAL ASIA PACIFIC	1.32
EUROPEAN	
HUNGARY	0.33
FYR MACEDONIA	NA
MONTENEGRO	NA
POLAND	0.50
ROMANIA	0.24
SLOVENIA	0.61
TURKEY	0.43
CZECH REPUBLIC	0.43
TOTAL EUROPEAN	0.43

Source: Task Force´s own calculations

APPENDIX 5: THE SURVEY QUESTIONNAIRE

Please, fill in and send by 16 January 2009

INTRODUCTION TO EMC MEMBER SURVEY

SAMPLE ONGOING MEMBER SURVEY
The objective of the present survey is to broadly assess the impact of the current financial crisis on emerging economies and detect the main policy issues involved. The survey is divided in permanent and topical questions. The latter are specifically referred to the current financial crisis. The information below will be kept in strict confidence and will NOT be transferred to any third parties without your consent. The information will only be used in summary form to identify the key issues for emerging markets.

COUNTRY/JURISDICTION:

PERMANENT QUESTIONS:
The following questions will provide an overview of the main supervisory issues that member Institutions will face in the middle run. The results from these questions will provide some insight on the dynamics of supervisory and regulatory issues during and after the financial crisis. The 12 month period is written taking into account that your jurisdiction's vision of the challenges and goals is long term but that this vision may change subject to market conditions as the year progresses. Thus, the permanent questions will be circulated every six (6) months in order to assess any long term trends. In the cases where there is variation in the response from the prior survey, the lack of change is also informative. If there is no change, please copy the responses from your prior survey.

1. In the **past** 12 months, what have been the 3 major regulatory & supervisory issues with regards to your jurisdiction?

2. For each of the past challenges above, please indicate their relative importance and magnitude on financial markets between 1 (low importance) and 5 (high importance)

	1	2	3	4	5
First challenge					
Second challenge					
Third challenge					

3. In the **next** 12 months what do you think will be the 3 major supervisory & regulatory issues you will have to deal with **(**regardless of being the same as those indicated in question 1)?

4. For each of the future issues above, please indicate their relative importance and magnitude on financial markets between 1 (low importance) and 5 (high importance)

	1	2	3	4	5
First challenge					
Second challenge					
Third challenge					

TOPICAL QUESTIONS:
The following questions are directly related to the current financial crisis and will provide some insight on policy issues that member Institutions are facing and will also provide some trends on the solutions.

5. Consider the following sources of instability and financial contagion for your jurisdiction. Please indicate the importance of each of those sources on a scale from 1 (not important) to 5 (extremely important).

	1	2	3	4	5
Speculation in derivatives markets (including swaps)					
Repatriation of capital by foreign investors					
Withdrawal of lines of credit					
Exchange rate adjustments					
Structured bonds downgrade (MBS or ABS)					
The lack of hedging possibilities					
International trade (terms of trade)					
Risk transfer from exchanges overseas due to dual listings (e.g., ADRs)					
Currency mismatch (between assets and liabilities)					
Maturity mismatch (between assets and liabilities)					
Domestic interest rate increase					
Measuring and assessing exposure to risky assets					

Please indicate (if any) other sources of instability not listed above, including their relative importance.
[ ] Other ________________________

Comment:

6. What measures are being taken in your jurisdiction to reduce instability? Check (i.e., mark with an "X") the ones that apply (regardless of their relative ranking).

[ ] Restricting short selling or making other market interventions
[ ] Capital Flight Controls
[ ] Exceptional Financing from Central Bank
[ ] Use of public resources to support stock prices
[ ] Exchange rate intervention
[ ] Increasing deposit insurance limits
[ ] Trading halts or circuit breakers
[ ] Market closure
[ ] Other ________________________

Comment:

7. Are there any other relevant issues affecting your jurisdiction not included above? Please explain.

If you have any inquiry on this survey or need further assistance, please contact Guillermo Yanez at the Superintendence of Securities and Insurance in Chile

by Email gyanez@svs.cl as well as Macarena Vasquez mvasquez@svs.cl or by phone at 56 (country code) - 2 (area code) – 473 4035

Important: Please indicate the name, email and phone number of a contact person in your agency in case we need clarification on any aspect of your responses to this survey or need further feedback from you.

Country/jurisdiction:
Name:
Email:
Phone:

Thank you for collaborating with this survey. Your opinion is very important to us.

APPENDIX 6: MANDATE

INTRODUCTION

Following discussion at the meeting of the Emerging Markets Committee Advisory Board (EMCAB) on 8 October 2008, the Emerging Markets Committee (EMC) decided at its 9 October 2008 meeting to establish an EMC Chairs Task Force on the current financial crisis.

The purpose of the Task Force is to consider the implications of the current financial crisis from the perspective of securities regulation within emerging markets, and to suggest solutions. It will have a particular focus on securitization from an emerging markets perspective.

PURPOSE OF THE PROJECT

The effects of the current financial crisis appear to be spreading beyond their original manifestation in the financial system of some developed markets, in particular in the market for sub-prime mortgage related securities. Effects are being felt outside the balance sheets of those directly holding such securities, in particular in the balance sheets of financial institutions generally. There is concern that the crisis may also contribute to a slowing of growth or negative growth in the real economy.

As the crisis has developed the situation in emerging markets has changed. Initially there was little spillover, as the financial institutions in many emerging markets did not appear to be holding much of the assets which were affected, either because of regulatory restrictions or for other reasons, and because growth in the real economy in many emerging economies was strong and driven by non-financial sector factors.

As the crisis has developed, many financial institutions are showing stress and the credit markets have substantially tightened.

The purpose of this project, against this background, is to consider the implications of the current crisis for securities regulators in emerging markets. The project will assess the current impact of the crisis on emerging market economies and securities markets more specifically, identify the relevant securities regulatory issues, and make recommendations for further work.

The project will assess the lessons learned from previous crises, such as the financial crisis which affected many emerging markets in 1997-8, to assess the extent to which those findings can be applied to the current circumstances.[17]

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[17] See *Causes, Effects and Regulatory Implications of Financial and Economic Turbulence in Emerging Markets*, Report by the Emerging Markets Committee of IOSCO, November 1999, available at www.iosco.orglibrary/pubdocs/pdf/IOSCOPD99.pdf .

The project will also consider the elements of successful securitization programs, with an emphasis on the experience of emerging markets. The intention of this part of the project is to analyze the experience of some selected emerging markets with securitization and to identify the elements of successful securitization programs. This part of the project will be conducted in conjunction with the International Monetary Fund and build on existing survey and analytical work that the Fund has undertaken in some EMC jurisdictions.

INTENDED OUTPUTS

The work will be divided into two parts to assess and identify:

- the impact of the current turmoil on EMC members' markets, the regulatory issues and responses thereto; and
- the role of structured financial products in the development of emerging markets jurisdictions.

The intended outputs of the project are as follows:

1. A report on the impact of the turmoil on EMC members' markets, the regulatory issues and responses and suggestions for further work, for the consideration of the EMCAB;
2. A joint report, with the International Monetary Fund, on principles or best practices for securitization in EMC jurisdictions.

APPROACH

The work will include the circulation of a survey questionnaire to EMC members on the key regulatory and supervisory challenges faced in the current environment, and the relevant regulatory issues arising. In light of the demands faced by EMC members in their domestic markets, the intention is to carry out as much of this work as possible via electronic means and virtual meetings.

CONSTITUTION OF THE TASK FORCE AND WORKING METHODOLOGY

Membership of the Task Force will be open to all EMC members and members´ active participation will be encouraged, both through participation in meetings of the Task Force and through participating in the survey. The Task Force will be led by Sr. Guillermo Larraín, Chair of the SVS of Chile and Chair of the EMC and the Vice Chair will be Mrs. Zarinah Anwar, Chair of the Malaysian Securities Commission and Vice Chair of the EMC. Participation in Task Force meetings and deliberations at a suitably senior level from EMC members is strongly encouraged.

TIMING

The project will run initially over the course of a nine-month period, as noted below:

- Circulate questionnaire to full EMC for completion (12 December 2008)
- Members to respond to the questionnaire (by 16 January 2009)

- Prepare draft report on results of survey and progress with securitization aspects for EMCAB meeting (03 February 2009)
- Prepare final report for full EMC meeting (01 June 2009)

RESOURCES

EMC members will provide information through the survey. Task Force members will provide ideas and drafting direction. The General Secretariat will provide some drafting support to the Task Force. The IMF will work jointly with the Task Force on the securitization part of the project.

ANNEX 7: FEEDBACK STATEMENT

Comments were submitted by the following organizations in response to the Consultation Report: *Impact on and Responses of Emerging Markets to the Financial Crisis*, published for public consultation on the IOSCO Website in June 2009. The comment period ended July 21, 2009.

- Securities and Exchange Board of India (SEBI)
- International Council of Securities Associations (ICSA)

In general, comments were supportive of the Consultation Report. The table below sets out the specific comments made and the manner in which each comment has been addressed within the Final Report.

Comments	Original Paragraph	Incorporated Paragraph	Opinion
Comment 1 - SEBI **(Page11 Paragraph 35~36)** In the part of **"Strengthening financial regulation and Compliance with International Standards in Chapter 2(Conclusion and Recommendations)"**, we suggest adding G-20 recommendation about the need of undertaking self-assessments and conducting FSAP of regulatory frameworks based on internationally agreed methodologies and tools. This addition may give a better perspective to the Para.	The crisis has also raised the urgency for jurisdictions to enhance their regulatory framework in line with internationally agreed best standards that a global financial system requires. **(Inserted)** This new focus is very much in line with the strategic direction of IOSCO, whose significant role as an international standards setter **was recently** reiterated by the G-20. IOSCO intends to concentrate, and seek further support from members for projects to assist developing markets to implement the IOSCO Principles. **(Inserted)**	The crisis has also raised the urgency for jurisdictions to enhance their regulatory framework**s** in line with internationally agreed best standards that a global financial system requires. **In this regard, the G-20 Summit recommended the boundaries of regulatory frameworks should be reviewed periodically within national jurisdictions, in light of financial innovation and broader trends in financial system, based on internationally agreed methodologies and tools. Further, all G-20 members have committed to undertake an assessment of their jurisdiction by way of a Financial Sector Assessment Programme and to publish their respective conclusions.** This new focus is very much in line with the strategic direction of IOSCO, whose significant role as an international standards setter **has been** reiterated by the G-20. IOSCO intends to concentrate, and seek further support from members for projects to assist developing markets to implement the IOSCO Principles. **Members will also be called upon to support the ongoing review of the IOSCO Principles to ensure they are able to address the challenges the**	**Reflected**

		financial crisis has highlighted.	
Comment 2 - SEBI **(Page12 Paragraph 37~39)** In the part of **"Promoting market integrity in Chapter 2(Conclusion and Recommendations)",** we suggest adding about G-20 recommendation relating to enforcement which says- 'Effective enforcement of regulation should be priority of all financial regulators and, as such, national financial regulators should ensure effectiveness of their enforcement activities and that appropriate resources are available for monitoring the application of regulation and for prosecuting offenders.	Emerging markets experienced relatively low instances of market manipulation, insider trading, and frauds during the financial crisis. However, emerging markets regulators have recognized the need to strengthen their oversight and supervision over market participants including speculative investors, intermediaries, and credit rating agencies in anticipation of a rise in misconduct and abuse given deteriorating global financial conditions. **(Inserted)** **Emerging** market regulators **should continue to maintain a strong** investor protection regime given that **the** fragile markets could be easily vulnerable to attack from manipulators **under** the uncertainties over global capital market developments.	Emerging markets experienced relatively low instances of market manipulation, insider trading, and frauds during the financial crisis. However, emerging markets regulators have recognized the need to strengthen their oversight and supervision over market participants including speculative investors, intermediaries, and credit rating agencies in anticipation of a rise in misconduct and abuse given deteriorating global financial conditions. **These efforts will need to be complemented by strong and effective enforcement regimes supported by adequate regulatory resources.** Emerging market regulators **need to look at strengthening their** investor protection regime**s** given that fragile markets could be easily vulnerable to attacks from manipulators **as a result of** the uncertainties over global capital market developments.	This was not in fact ultimately one of the G-20 recommendations on April 2. This was one of the G-20 Working Group 1's 25 recommendations submitted for consideration by the leaders. It is nonetheless a sound issue and has been **reflected**.
Comment 3 - SEBI **(Page13 Paragraph 43~44)** In the part of **"International Cooperation and Coordination in Chapter 2(Conclusion and Recommendations)",** the text in last para read as **"It is hoped**	On April 2, 2009, the G-20 Summit leaders declared that the era of banking secrecy was over and agreed to take action against non-cooperative jurisdictions, including tax havens. In this regard, the	**Deleted paragraph 43**	**Reflected**

that in setting down……securities industry will be able to follow the trend in banking industry……. compliance monitoring of MOU operations" does not appear to be clear in terms of the meaning intended to be conveyed. The banking industry does not have an instrument like IOSCO MMoU which sets forth a framework of enforcement related cooperation. As such, <u>the text may be removed/ suitably modified</u>. Alternatively, the text may be replaced by giving current No. of Signatories and mentioning about the current position which requires having the ability to sign IOSCO MMOU as pre-condition for joining IOSCO Membership. IOSCO 'contact initiative' with uncooperative jurisdictions who are yet to join IOSCO membership but are strategically important, may also be added.	Organization of Economic Cooperation and Development (OECD) published a list of countries not in compliance with the international standard for exchange of tax information. IOSCO has set a January 2010 deadline for all member regulators to have applied to become signatories of the IOSCO MMoU or have expressed - through signing its Appendix B - a commitment to seek legal authority to enable them to become signatories to the IOSCO MMoU. **<u>It is hoped that in setting down this deadline the securities industry will be able to follow the trend in the banking industry, and declare that there will no longer be secrecy in securities trading with the support of compliance monitoring of IOSCO MMoU operations</u>** .	IOSCO has set a January 2010 deadline for all member regulators to have applied to become signatories of the IOSCO MMoU or have expressed - through signing its Appendix B - a commitment to seek legal authority to enable them to become signatories to the IOSCO MMoU**.** **<u>In addition, IOSCO has made full compliance with the MMoU a precondition for any new memberships of IOSCO. In order to promote further cooperation between its members, IOSCO has recently set up a new Task Force looking into further modalities for improved supervisory cooperation.</u>**	
Comment 4 - ICSA **(Page16 Paragraph 55)** In the part of **"Recommendations in Chapter 2(Conclusion and Recommendations)",** as is noted in the Report, the financial crisis represents an opportunity for regulators to, "…revisit the design,	In this instance, the crisis affords regulators an opportunity to revisit the design, structure and approach to regulating and developing their financial systems. One positive result of the crisis is	**<u>Reflected in Paragraph 55(6)</u>**	SRO role elaborated in amendments to paragraph 56 of the Report as indicated below.

structure and approach to regulating and developing their financial systems." As part of that review, **we would suggest that regulators in emerging market economies should also examine the actual and potential role of self-regulatory organizations (SROs) in their financial markets**. SROs take different forms in different jurisdictions, reflecting national preferences and cultures. Regardless of those different forms, SROs make an important contribution to the regulatory systems where they exist, and measures to enhance the capacities of SROs would contribute to more effective regulation of capital markets as a whole.	a general willingness to examine existing policies and practices, and consider a wide range of alternatives. Better-functioning capital markets would likely have reduced the impact of the crisis on emerging market countries. As domestic financial systems develop and become more complex, so must emerging market regulators enhance their respective regulatory frameworks.		
Comment 5 - ICSA **(Page16 Paragraph 56(4))** ICSA members also agree with the need to ensure proper sequencing between market development and capital account liberalization. We are well aware of the extensive literature that has developed over the past two decades regarding the need for appropriate sequencing of capital market liberalization in emerging market economies, specifically in those economies where the legal	**Ensure proper sequencing between market development and risks of liberalization.** Regulators need to ensure adequate financial supervision. For example, higher standards of prudential supervision should **precede** liberalization;	**Strengthen regulatory frameworks in coordination with liberalization initiatives.** Regulators need to ensure adequate financial supervision **in line with market development**. For example, higher standards of prudential supervision should **be adopted in parallel with** liberalization;	**Modified** to eliminate potential misinterpretations and to make clear the regulatory measures should not be used to delay liberalization or be set forth in a manner which discriminates against foreign firms

infrastructure is not sufficiently developed and/or financial sector regulatory and supervisory standards are inadequate. However, we are concerned that not all readers of the Report will be aware of that literature and, as a result, this specific recommendation could be misinterpreted as supporting protectionist measures. Accordingly, **we suggest that the recommendation could be rephrased or amplified in order to eliminate potential misinterpretations and to make clear the regulatory measures should not be used to delay liberalization or be set forth in a manner which discriminates against foreign firms**.			
Comment 6 - ICSA **(Page17 Paragraph 56(6))** ICSA members strongly support the recommendation that regulators in emerging market economies work closely with the industry on corporate governance and risk management issues. However, we note that this cooperation should not be limited to only those two areas. As the Report states, "… it is unreasonable to expect supervisors to work alone in dealing with the underlying crisis."	**Work closely with industry groups.** Industry groups indeed have an important role in dealing with the underlying causes of the crisis. It is unreasonable to expect supervisors to work alone in **dealing with the underlying crisis**. What is important is that industry groups work closely and openly with authorities to decide on necessary actions **and standards to adopt**.	**Work closely with industry groups.** Industry groups indeed have an important role in dealing with the underlying causes of the crisis **and broader market challenges**. **Regulators and industry bodies need to work together to enhance market efficiency and ensure stable development of financial markets.** What is important is that industry groups work closely and openly with authorities to decide on necessary actions **to respond to dynamic**	**Amended** to better capture role of SRO's

Since there are many areas identified as sources of the crisis, it would be prudent to extend the range of cooperation to cover a wider range of issues. **We suggest that this cooperation should also include issues that are not related to the financial crisis.** ICSA members firmly believe that a collaborative and open consultative relationship between regulators and industry bodies will greatly facilitate the development of regulatory standards that enhance market efficiency and economic growth while also contributing to the stable development of financial markets. ICSA is ready to contribute to that process as a bridge between the industry and regulators.		**market conditions and challenges. For example, as part of this work, regulators in emerging markets should examine the actual and potential role of self-regulatory organizations (SROs) in their financial markets.**	