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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

March 26, 2009

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Re: G20 Leaders Summit, 2 April 2009

In light of the forthcoming Leaders Summit of the Group of 20 in London on April 2, I would like to take this opportunity on behalf of the Emerging Markets Committee of the International Organization of Securities Commissions (IOSCO) to bring to your attention some perspectives from the Emerging Markets on the impact of the ongoing crisis.

In the last 25 years, Emerging Markets from various regions of the globe undertook critical reforms to modernize their economies. Among those reforms, openness to trade and capital flows have played a prominent role: integration into the world markets now constitutes a key feature for their economic development. This process allowed them to enjoy a long period of economic growth and poverty reduction. Indeed, Emerging Markets as a whole, and particularly Asian countries, now constitute the driving force of world economic growth.

At the same time, Emerging Markets have undertaken systematic efforts to strengthen their macroeconomic stance and shock absorbing capacity. Their markets have grown in terms of depth and liquidity. Their regulatory regimes have been modernized and made consistent with the new international standing of their financial sector participants.

As a result, Emerging Markets are now in a much better position to deal with the challenges that lie ahead for the global economy. However, the participation of Emerging Markets in the decision making process at the international level has grown much slower than the strength, sophistication and impact of their financial markets.

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The main messages this letter intends to convey are as follows: First, there is a need for a greater inclusion of Emerging Markets at the various levels of the decision making process in the new international financial order; Second, there is a need to consider, when charting the way out of the current crisis, the peculiarities of our financial markets given not all of them are fully developed yet; and Third, there is a need to improve the international coordination of measures given that, as it has become clear during the crisis, markets are interrelated and decisions have spillover effects elsewhere.

The Emerging Markets Committee of IOSCO has compiled information on the impact of the international crisis on its jurisdictions. Although the information is still preliminary, we feel it is relevant to inform the authorities of the G20 as to the initial indications so that they may take better decisions in order to overcome the serious financial crisis which is ailing the world.

The information compiled in January 2009 corresponds to 38 jurisdictions representing approximately 70% of the GDP and market capitalization of the emerging world. Among the jurisdictions having voluntarily responded are large economies such as Brazil, China, India and Indonesia, as well as small ones such as Montenegro, and including some jurisdictions with financial systems of significant international weight such as South Africa, South Korea and the Dubai International Financial Centre in the United Arab Emirates among several others.

Emerging Markets are being hurt by the crisis through various channels. Some of them are of a financial nature, such as the level, cost and access to international markets, which are affected by the massive financial deterioration of banks and other intermediaries in the developed world. Other channels are of a macroeconomic nature, such as the deterioration in the terms of trade.

The critical point is that financial systems in Emerging Markets have been subject to stress primarily as a result of these international financial and macroeconomic shocks.

However, despite the exogenous nature of the aforementioned shocks, the securities regulators in developing countries have identified domestic challenges highlighted by the crisis. They are related in part to the insufficient depth, liquidity and completeness of an important number of financial markets within the jurisdictions belonging to this Committee.

In the opinion of the regulators surveyed, the most important task they face ahead is reviewing their regulatory focus and their supervisory capabilities. We hope the international community including various multilateral organizations and fellow supervisors from around the globe will be interested in advising various jurisdictions in regulatory reform in order to improve overall governance of the international financial system

The current market turmoil and the significant presence of international financial institutions in Emerging Markets justify a greater involvement of the supervisors, which I represent, in the supervision of internationally active financial groups. In this sense, this Committee has proposed to the Financial Stability Forum that supervisors from Emerging Markets should be included in Supervisory Colleges. Given the weight that some internationally active financial groups have within smaller jurisdictions, we

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pointed out that situations affecting the holding company may represent a systemic risk to the local jurisdiction so that its supervisor needs to be informed. This is not intended to undermine the effectiveness of Supervisory Colleges but, on the contrary, to improve the efficiency of the supervision of these international financial groups while adding a degree of fairness to the integration of Emerging Countries to world financial markets.

Lastly, I wish to point out two somewhat contradictory outlooks with respect to the possible evolution of the financial crisis but which require similar treatment, namely enhanced coordination with Emerging Markets´ authorities.

On the one hand, one cannot disregard the possibility that the recession that many developed countries are experiencing may be longer and deeper than initially thought. As the crisis unfolds, Emerging Market jurisdictions are gradually using their buffer mechanisms. If the duration of the crisis extends, it may happen in some jurisdictions that these mechanisms may weaken enough so that they might be exposed to the risk of a more severe economic contraction with all the social and political consequences they often convey.

On the other hand, a large number of Emerging Markets' supervisors have expressed worry that an eventual reversal of the current expansionary monetary and fiscal policies enacted in developed countries may, in the future, cause important changes in capital flows and asset prices. Due to the weaknesses we have signaled as characterizing an important part of the jurisdictions belonging to this Committee, this will reinforce instability that will adversely affect our markets when such a reversal does occur.

Both scenarios suggest that, from now on, instances of coordination and communication with regulators from Emerging Markets should be maximized. The economic benefits of international capital mobility must be tempered by the significant economic costs of sudden policy changes in developed countries. Without a proper coordination, this may cause instability in some Emerging Markets which, in its turn, may expose world economic growth to an undesirable risk. The early inclusion of Emerging Markets in the solution seeking process seems essential for the future stability and progress of an integrated world economy.

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Cc: Mr. Mario Draghi, Chairman of the Financial Stability Forum

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