



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

Dr. Obaid Al Zaabi

- > Vice Chair of the IOSCO Board
- > Chair of the Growth and Emerging Markets Committee
Chief Executive Officer, Securities and Commodities Authority, United Arab Emirates

I am pleased to present this year's Growth and Emerging Markets Committee (GEMC) Report. In 2019, the GEMC continued to focus on sustainable finance-related issues, crypto assets and developments in financial technology. GEMC work enabled members from growth and emerging market jurisdictions to provide the IOSCO Board with unique insights into these and other important issues.

Sustainable Finance

Today, the world is more conscious than ever of the environmental risks and economic impact of climate change. It is not only civil society that is aware of all that is at stake; the financial services sector also considers climate change and sustainable development goals to be important factors that influence investment strategy. Given the magnitude of the challenges ahead, the GEMC has made sustainable finance one of its overarching priorities.

In recent years, market participants, regulators and policymakers have increasingly centered their attention on sustainable finance in its many forms. This issue is particularly relevant for growth and emerging markets seeking to develop capital markets in their jurisdictions.

Accordingly, and in line with the IOSCO Focus Areas identified by the IOSCO Board (May 2017), the GEMC agreed to review the key issues and challenges involved in developing sustainable finance in capital markets and the role of securities regulators in this effort, including the reporting issues related to environmental, social and governance factors (ESG). The GEMC organized a *Dialogue on Sustainable Finance in Capital Markets* in London in July 2018. Based on the outcomes of this dialogue and the information collected through

a survey questionnaire, the GEMC Working Group on Sustainability in Emerging Markets (WGS) prepared a draft consultation paper, published in February 2019.

The outcome of this work was the publication in June 2019 of a final report on *Sustainable finance in emerging markets and the role of securities regulators*, which sets forth ten recommendations that member jurisdictions should consider when issuing regulations or guidance regarding sustainable instruments and additional disclosure requirements of ESG-specific risks. The recommendations fall into the following categories:

- > Integration by issuers and regulated entities of ESG-specific issues in their overall risk assessment and governance (Recommendation 1);
- > Integration by the institutional investors of ESG-specific issues into their investment analysis, strategies and overall governance (Recommendation 2);
- > ESG-specific disclosures, reporting and data quality (Recommendation 3);
- > Definition and taxonomy of sustainable instruments (Recommendation 4);
- > Specific requirements regarding sustainable instruments (Recommendations 5 to 9); and
- > Building capacity and expertise for ESG issues (Recommendation 10).

The report explores the trends and challenges that shape the development of sustainable finance in emerging capital markets. It also provides an overview of the initiatives that regulators, stock exchanges, policymakers and others key stakeholders in emerging markets have undertaken in this area. The report identifies the prerequisites for creating an ecosystem that facilitates sustainable finance, such as an appropriate regulatory framework and fit-for-purpose market infrastructure, reporting and disclosure requirements, governance and investor protection guidelines and mechanisms to address needs and requirements of institutional investors.

The GEMC also believes that appropriate capacity building will better prepare members for addressing the challenges posed by the rapid growth in sustainable finance. The committee envisages launching an outreach program on the Sustainable Finance Report and its 10 recommendations.

The GEMC work complements IOSCO's efforts on sustainability, which include work by the IOSCO Sustainable Finance Network and the *IOSCO Board's Statement on Disclosure of ESG Matters by Issuers* that was issued on 18 January 2019.

Fintech in Emerging Markets

The GEMC has identified Fintech as a common priority for emerging markets. Accordingly, and following a strategic discussion by the GEM Steering Committee in February 2019, the GEMC decided to undertake work that explores the regulatory and supervisory approaches to innovation facilitators, including innovation hubs, regulatory sandboxes and accelerators, in GEM jurisdictions. This new project, approved at the GEMC meeting in September 2019, also aims to examine the issues and challenges for emerging markets of implementing and monitoring these facilitators.

Among other things, it envisages analyzing the role of the public and private sectors in enabling such facilitators. The key deliverable will be a public report with a comprehensive analysis of the initiatives taken by GEM jurisdictions and a list of recommendations and guidance on how securities regulators can develop effective innovation facilitators and approach them from a regulatory and supervisory perspective.

Other Work

The GEMC was invited to contribute to the work program of the International Financial Architecture Working Group (IFA WG) for 2020, which was endorsed

by the G20 Finance and Central Bank Deputies in December 2019. The GEMC will contribute to the first objective of the IFA WG work program, which is to develop domestic capital markets to support growth and enhance financial resilience.

The development of strong domestic capital markets depends upon sound macroeconomic policies, strong legal and regulatory frameworks and robust financial infrastructures. The GEMC is conducting an analysis, based on previous GEMC work, to produce a report that will present the main challenges and opportunities in the development of emerging capital markets. The report will aim to set out high-level recommendations regarding capital market development for emerging markets.

The report will be completed in September 2020.

GEMC Annual Meeting and Conference

The Bank of Russia hosted the GEMC Annual Meeting and Conference in Saint Petersburg on 19 and 20 September 2019. The Public Conference agenda focused on the three core IOSCO objectives, the Board priorities and the current financial environment. The Conference was composed of four sessions:

- > *Market fragmentation and cross border activity:* The panelists discussed the challenges and main tools for enhancing cross border cooperation.
- > *Building sustainable capital markets:* The panelists discussed the issues and challenges faced in creating an enabling environment for sustainable financing and the role of securities regulators in this area.
- > *Fintech innovation:* The panelists shared their insights regarding new challenges and opportunities and ways to foster a regulatory environment conducive to both technological innovation and ensuring investor protection and financial stability.
- > *Investor education in a digital era:* The panelists shared their views on current initiatives in investor education and the use by regulators of multi-media to reach investors.

This conference provided participants with insightful and fruitful panel discussions.

During GEMC meetings, members shared information on recent developments and emerging risks and trends identified in their capital markets. Most of the emerging risks highlighted by members were consistent with those in the IOSCO Risk Outlook. Members also

identified additional risks regarding technology (e.g., blockchain and distributed ledger technology), liquidity issues and greenwashing that the GEMC could study in the future.

Members gave regulatory updates and shared experiences concerning developments in sustainable finance and capacity building activities. Participants also explored initiatives to provide greater support to emerging market members in areas such as cybersecurity, crisis management and financial stability risk.

Workshop on Building Financial Resiliency for a Changing Environment

The GEMC organized a regulatory workshop (*Building financial resiliency for a changing environment-empowering leadership*) centered on investor education at its Annual Meeting in Saint Petersburg, Russia, in September 2019. This workshop was conducted in collaboration with the International Forum for Investor Education (IFIE). Participants shared their views on the key issues that impact investors at both the micro and macro systemic level and other critical emerging issues.

Conclusion

I wish to highlight that during my tenure as Chair of the GEMC, I am committed to serving GEM members and contributing to IOSCO's work to develop sound and sustainable capital markets worldwide.

In 2019, little would have been accomplished in this area had I not benefitted from the unwavering support and collaboration of GEM members, my two Vice Chairs and the IOSCO General Secretariat. I wish to express my appreciation to them for their dedication and hard work in accomplishing all of the GEMC initiatives. I am particularly grateful to Raluca Tircoci-Craciun of the General Secretariat for coordinating the IOSCO GEMC work throughout the year. Her dedication and diligence proved to be invaluable to our committee work.

Given the evolving financial climate, GEMC members will undoubtedly encounter more challenges ahead. I am sure that with a concerted effort, we will overcome them. On this note, I look forward to GEM members participating actively and enthusiastically in the GEMC's workplan.



