Suruhanjaya Sekuriti
Securities Commission
Malaysia

"Forging a greater role for emerging markets"

Excerpts from plenary remarks delivered by Datuk Ranjit Ajit Singh, Chairman of Securities Commission Malaysia, who is also IOSCO Growth and Emerging Markets Committee Chair and IOSCO Board Vice Chair, at the 38th Annual Conference of the International Organization of Securities Commissions (IOSCO) in Luxembourg on 18 September 2013

1. It is a great pleasure to be here in the Grand Duchy of Luxembourg. The country's rise as a global financial centre has certainly been a remarkable success story. It is a testimony to the foresight and leadership of those who had the vision to define and build a competitive niche for Luxembourg as a major hub for financial services.

2. Such clarity of vision and level of commitment are attributes which many of us would hope to emulate, as we continuously navigate through the increasingly complex and competitive waters that characterise global financial markets today.

3. One year ago, at this very same Conference in Beijing in May 2012, I remember speaking on the rise and the promise of emerging markets. Exactly 12 months later, in May this year, emerging markets were once again the focus of global attention – albeit for slightly different reasons as the markets reacted to comments on the expected tapering of quantitative easing in the US.

4. Events of the recent past attest to the volatility inflicted by the ebb and flow of global capital. Since 2009, more than US$4 trillion of private capital have flowed into emerging markets.[1] Out of this, approximately US$1.7 trillion – equivalent to

[1] Source: Institute of International Finance (IIF) *Capital Market Flows to Emerging Market Economies* various editions. Includes FDI as well as portfolio flows.

42% of total private flows – comprised *short-term* investments into equities and bonds, compressing bond yields and sending valuations soaring.[2]

5. However, because portfolio flows were largely driven by highly-leveraged players with relatively short investment horizons, any indication of a potential tightening in global liquidity will naturally trigger an unwinding of carry trades and the reversal of some of these flows. This was manifested in volatility that was observed in emerging markets over the last few months.

6. However, does this mean that fundamentals in emerging markets have deteriorated overnight? As discussed during our meetings in Luxembourg, it was quite the contrary. In fact, despite the on-going pockets of turbulence, the promise of emerging markets that I have expounded on during last year's Conference has not waned but continues to hold true.

7. Why is this so? Aside from the economic growth potential of these countries, it is also because emerging markets have largely learnt lessons from past crises.

8. Since then, many emerging markets have undertaken difficult but necessary structural reforms, by implementing a robust securities regulatory framework in line with the IOSCO Principles, broadening and deepening domestic asset markets to reduce reliance on external debt and adopting more flexible exchange-rate regimes.

9. Emerging markets also have amassed more than US$6 trillion in reserves and several central banks have entered into bilateral swap agreements to insure themselves against external balance-of-payment shocks.[3] Furthermore, the bulk of capital flows into emerging markets over the last few years constitute foreign direct investments, which are relatively stable.[4]

10. In short, emerging markets are in a considerably stronger position today than they were in the past. Hence, comparisons to previous financial crises are to a large extent misplaced, but also – at worst – unduly alarmist.

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[2] Source: Institute of International Finance (IIF) *Capital Market Flows to Emerging Market Economies* various editions. Only portfolio flows; excludes FDI.

[3] Value of foreign reserves as per Bloomberg data. http://www.bloomberg.com/news/2013-09-04/emerging-nations-save-2-9-trillion-reserves-in-rout-currencies.html

[4] Source: Institute of International Finance (IIF) *Capital Market Flows to Emerging Market Economies* various editions.

11. Nevertheless, there remain a number of lessons that we could draw from the current bouts of volatility. First, it is apparent that there are still too many unknowns about global capital flows. How can the international regulatory community take swift, decisive action when it does not have sufficient timely and granular information about the magnitude and direction of these flows, as well as the nature and motivations of entities driving them? While we may have some information at the national level, often what we *do* know at the global level is fragmented and outdated.

12. There is therefore a clear and urgent need for us to improve the transparency of global capital flows. This could be done by ensuring the availability of authoritative, timely and comprehensive aggregate data, which provides a clear, global picture. Not only would this allow policy makers to calibrate their policy responses to maintain resilience but more importantly provide a degree of transparency to the overall market that would lend a measure of confidence to market participants. This is the work that will be undertaken by IOSCO's Research Department together with the Growth and Emerging Markets (GEM) Committee.

13. Second, emerging markets must not waver from the path of strengthening, and continue to press on with structural reforms to build a robust foundation for sound capital markets, to meet increasing needs for market-based financing. They must continue to be committed to the development of institutions, such as a strong regulatory and enforcement framework, high corporate governance standards, and institutional investors in the domestic markets, such as pension and provident funds.

14. This includes the development of long term financing in driving growth of economies: SME financing, infrastructure development and broader and deeper bond markets are very important components that need to be addressed by IOSCO and regulators globally. Inclusiveness and sustainability are also critical aspects that must be addressed to ensure greater and wider participation in capital markets to avoid the concentrations of wealth that continue to characterise many markets.

15. Third, the on-going turbulence also demonstrates the need for emerging markets to speak in a more cohesive voice, and rally together for stronger and more active representation in international discourse. Moreover, to achieve the envisioned reforms, it is necessary for us to adopt the ethos of inclusiveness not only within

markets but also at the international regulatory and policymaking level. Again, in my opinion, IOSCO has demonstrated leadership in this area.

16. As suggested by the theme of this Conference, global finance indeed interconnects all of us, and much greater international coordination is needed to ensure that due regard is paid to the costs and consequences of policies, not only to the home jurisdiction but also the global financial system.

17. Furthermore, the international regulatory community should also be steadfast and resolute in our commitment to a single set of global standards. If left unchecked, the current shift towards inward-leaning policies that prioritise domestic interests without adequate regard for extraterritorial implications could potentially result in fragmentation and regulatory hegemony.

18. In pursuing such reforms, I believe that IOSCO is uniquely positioned to lead the agenda, due to the inclusive and highly diverse representation of members within the organisation. Our collective and sustained efforts are crucial in ensuring that we continue to strengthen the foundations of the global financial system. The new strategic direction of the GEM Committee that was endorsed by the membership at this conference in Luxembourg reflects many of the themes that I have mentioned today.

19. To resolve these issues, there is no time like the present. Where there is volatility and ambiguity, there must now be clarity and certainty. Where there is disillusion, we must now regain trust. And where there is excessive short-termism, we must now engender sustainability and inclusiveness. Only through these reforms could we rebuild the global financial system into one that optimally serves the needs of the real economy, and more importantly, the broader society.

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