



ICSA

INTERNATIONAL COUNCIL of SECURITIES ASSOCIATIONS

EMERGING MARKETS COMMITTEE

2021 Research Report



Development of Emerging Capital Markets



Chair



May 2021



ICSA

INTERNATIONAL COUNCIL of SECURITIES ASSOCIATIONS

ABOUT ICSA

Founded in 1988, ICSA is the global organization of securities industry associations representing firms across the world including East and West Asia, Latin America, North America, and Europe.

ICSA is the only true representative of the global securities industry.

ICSA provides members with market intelligence, a stronger voice, and increased impact by

- serving as a forum to understand developments, exchange views and practices, and collaborate to work for better global capital markets.
- advocating appropriate regulatory policies, regulations, and initiatives across jurisdictions to promote efficient and well-functioning securities markets and the flow of cross-border capital.
- assisting regulators and government authorities in understanding the global, consolidated, and non-biased position of the industry as it relates to proposed policy and regulatory reform.

As IOSCO brings together the world's securities regulators and develops and implements internationally recognized standards for securities regulation, ICSA is ideally suited to work closely with them to provide market perspectives and positions. ICSA has built relationships with the Financial Stability Board, the Basel Committee on Banking Supervision, and the OECD.

Consultation responses and research published by ICSA can be found on dedicated sections of its website <https://icsa.global/>

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Development of Emerging Capital Markets

I. Introduction

In October 2020, IOSCO's Growth and Emerging Markets Committee (GEMC) published *Development of Emerging Capital Markets: Opportunities, Challenges and Solutions*¹. The report analyses gaps in capital market development in emerging markets and how regulators can address them. It further discusses both the challenges and opportunities for EMs and sets forward a list of key recommendations for EMs to consider when developing their markets.

Using the IOSCO report as a basis, the purpose of this research is to highlight priorities and initiatives being taken to close gaps and develop capital markets in ICSA Emerging Market Committee member jurisdictions.

To maximise the value of this initiative, this research paper is being published publicly and shared with IOSCO without anonymity to contribute to the understanding of the development of emerging capital markets and encourage dialogue.

The insights and cooperation provided by committee members in making this a useful and successful exercise are very much appreciated.

Kind regards,

Anurag Bansal

Chair - ICSA EMC Committee

¹ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD663.pdf>

II. Summary

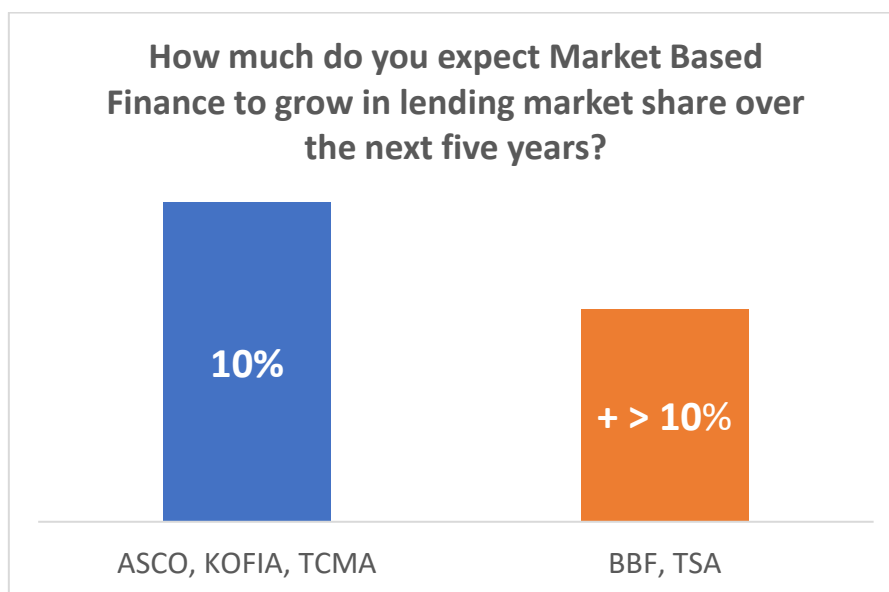
ICSA Emerging Markets Committee members represent very different markets across Asia, Europe, and the Americas. However, common priorities for addressing gaps in the development of capital markets emerged in the survey:

- Associations anticipate continued strong growth in Market Based Finance over the next five years, with none expecting zero or negative growth. Associations report that the greatest focus is on bond markets.
- Associations believe that enhancing regulatory frameworks is the top priority, placed above market structure and trading infrastructure.
- Improving investor education and product offering are the leading priorities in building the investor base, followed by regulation and liquidity.
- Leading priorities for enhancing liquidity are reducing ownership concentration, reforming the pension system, and encouraging more retail participation.
- Deepening liquidity is the top priority in developing bond markets, to be achieved through improving the new issue process, greater transparency, and enhanced investor protection.
- Priorities in building SME financing vary, with associations identifying multiple areas of importance.
- Regulation, risk management, and investor protection were identified by associations as leading priorities in the development of derivatives markets.
- As ESG is new to finance, associations view all the areas for its development as high priorities. This includes taxonomy, reporting, and investor regulation requirements.
- In Fintech, Peer-to-Peer Lending and Crowdfunding are priorities at all the associations.
- Tax reforms and incentives are viewed as most important in helping to develop markets.
- All the areas of governance are seen as priorities, with perhaps reporting of greatest focus.

Included in the results are specific developments and initiatives in member jurisdictions. Responses very much support the conclusion in the IOSCO report that “Each market is different in size and has its own set of characteristics and, thus, there is no *one size fits all* solution.”

III. Market Based Finance

Associations anticipate continued strong growth in Market Based Finance over the next five years, with none expecting zero or negative growth. Associations report that the greatest focus is on bond markets.



Comments

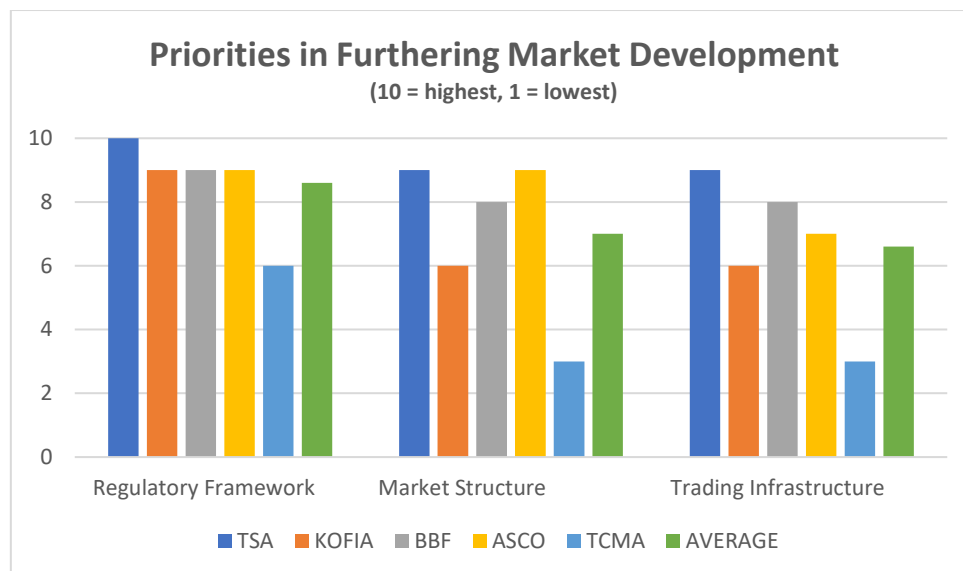
TSA: In Taiwan, multi-level capital market structures and transaction volume increases are making it easier for companies to raise funds.

KOFIA: Korea’s capital market-based financing (direct financing) has recorded an annual average growth of 12.8% for the last five years. Consistent growth of the corporate debt market is the major driving force behind this growth.

ASCO: In Thailand, the growth is expected to concentrate more on bond side rather than equity side.

IV. Market Development

Associations believe that enhancing regulatory frameworks is the top priority, placed above market structure and trading infrastructure.



Comments

Regulatory Framework

KOFIA: Progress includes 1) revamped regulations on a small-scale public offering, 2) overhaul of the regulatory framework on asset securitization, and 3) introduction of a business development company (BDC).

BBF: The Indian regulator has consistently and proactively formulated policies for development of Indian Capital Markets.

TCMA: In Turkey, the greatest focus is on digital assets and fintech.

Market Structure

KOFIA: To invigorate innovative companies' listing in the KOSDAQ market, listing requirements were relaxed and the IPO process was simplified. Ingenuity of a company's core technology or business, scalability, and R&D capability are included in screening criteria. Companies with a high external technology evaluation grade are waived from KRX screening process.

BBF: To encourage Indian start-ups to go public locally, the market regulator has reduced the requirement for issuers to list on the Innovators Growth Platform (IGP). IGP was launched by the Indian government back in 2015 to allow the start-ups to list themselves for public trading.

ASCO: Focus is on implementation of a proper ecosystem to support fund raising of start-up and SME.

Trading Infrastructure

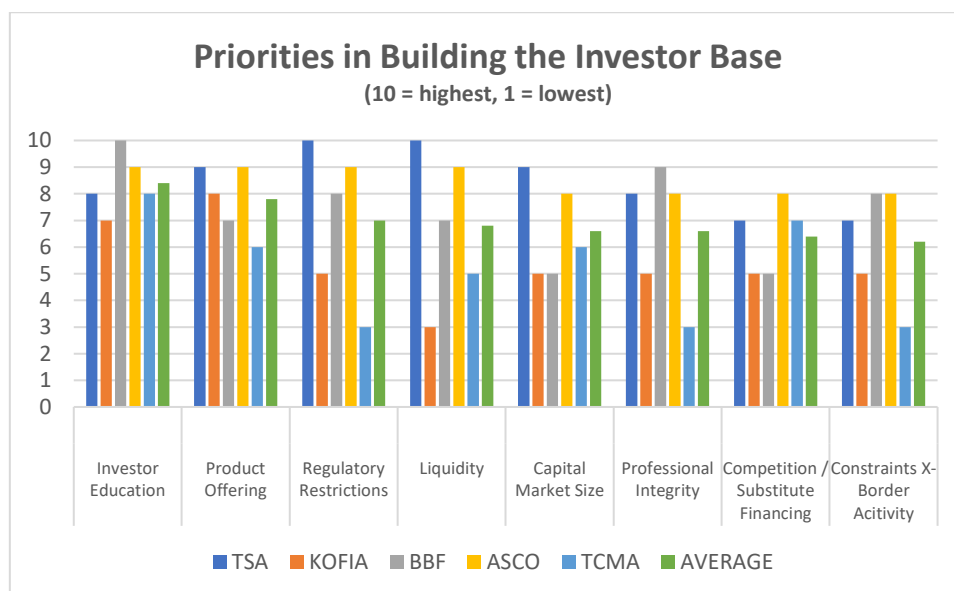
KOFIA: The amendment of the Financial Investment Services and Capital Markets Act in 2013 has provided legal grounds for establishing an ATS. Recently, six securities companies have been actively leading efforts to establish an ATS by conducting a feasibility study and receiving external consulting services.

BBF: The Indian regulator has released the discussion paper on “Review of Ownership and Governance norms for facilitating new entrants to set up Stock Exchange / Depository” recently in order to leverage the benefits of technologies and to incentivize Techfin / Fintech players to enter the Indian MII’s space.

ASCO: Focus is on the improvement of Algo and Program Trading Platform.

V. Investor Base

Improving investor education and product offering are the leading priorities in building the investor base, followed by regulation and liquidity.



Comments

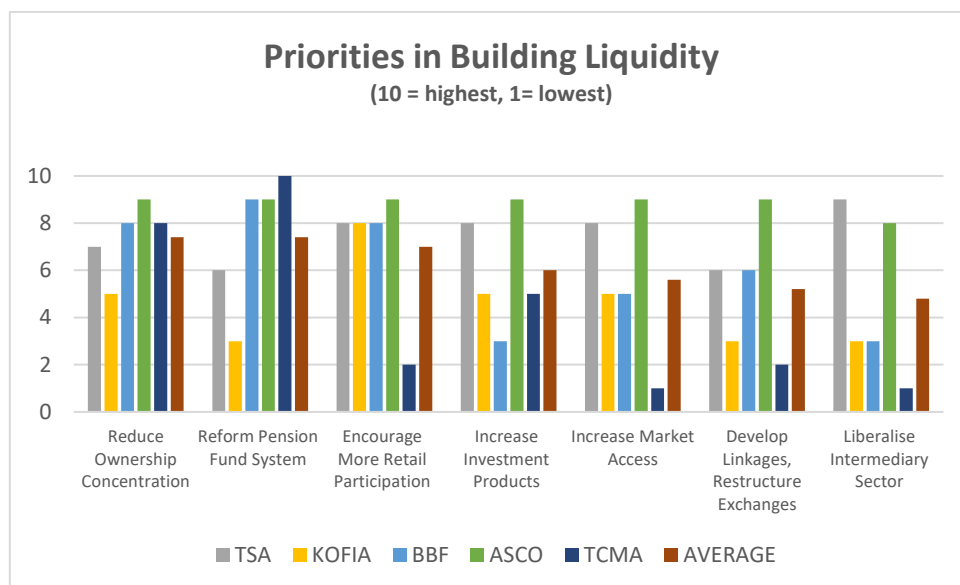
KOFIA: Developments include 1) improved IPO shares allocation system for retail investors, 2) revamp of regulations on short selling, and 3) work on measures to advance the derivatives market.

BBF: The regulator has initiated Securities Market Trainers (SMARTs) program to strengthen the investor education framework in India. The SMARTs are expected to conduct free of cost investors awareness programs on behalf of the regulator across the country.

ASCO: Capacity enhancement of salesperson is important on building the investor base.

VI. Liquidity

Leading priorities are reducing ownership concentration, reforming the pension system, and encouraging more retail participation.



Comments

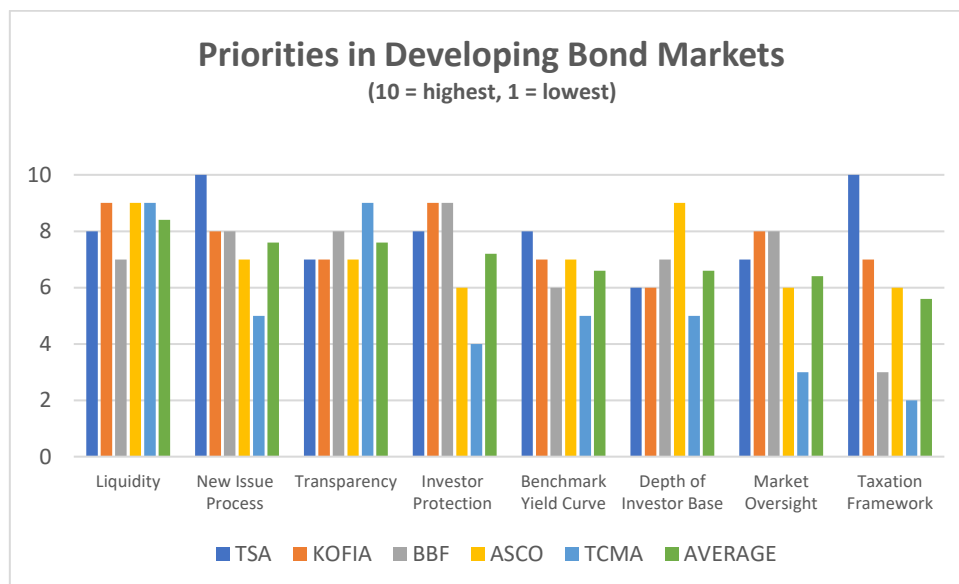
KOFIA: 1) *Introducing an ATS*: While the Korean securities market is highly liquid, the KRX is the sole securities exchange operator in the country. Establishing an ATS is likely to inject more liquidity into the market. 2) *Implementing the default option for retirement pension schemes*: To allow retirement assets to be invested in the default option, efforts to revise the Act on the Guarantee of Employees' Retirement Benefits are underway.

BBF: To improve liquidity in capital markets during the pandemic, the regulator has implemented a slew of proactive measures towards relaxation in regulatory compliance, ease of fundraising and development of the corporate debt market. The initiatives included one-time relaxation in primary market fundraising norms, relaxation of the eligibility criteria for issuances, fast-tracking of issuances, rationalisation of disclosures, and relaxation of the minimum subscription requirements, among others.

ASCO: All the list above are very important

VII. Bond Markets

Deepening liquidity is the top priority, to be achieved through improving the new issue process, greater transparency, and enhanced investor protection.



Comments

KOFIA: There are several initiatives being taken: improving the regulatory framework on corporate bond issuance, enhancing soundness in the repo and asset-backed securities markets, supporting financing efforts for high-yield bonds, and enhancing the Treasury bond market and expanding its demand.

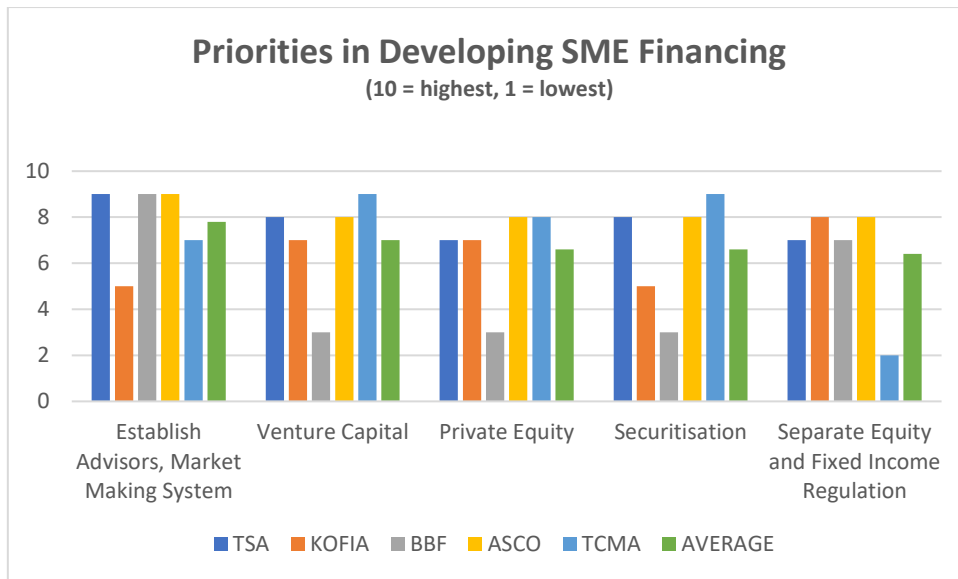
BBF:

- The Request-For-Quote (RFQ) platform has enabled online trading on a centralized platform through multi-lateral negotiations.
- To boost repo trading in corporate bonds, the regulator has taken an initiative for setting up a limited purpose clearing corporation for guaranteed settlement of tri-party repo trades in all investment grade corporate bonds.
- Application for subscribing public issues of debt securities is executed through an online mechanism.

ASCO: Streamline of post default procedure is the important.

VIII. SMEs

Priorities in building SME financing vary, with associations identifying multiple areas of importance.



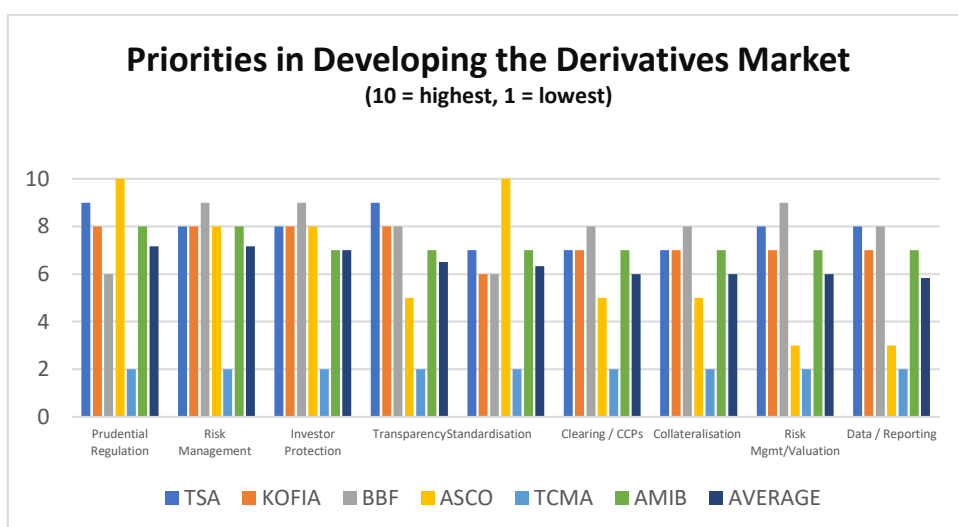
Comments

KOFIA: Efforts are being made to 1) allow securities firms to provide venture lending and 2) introduce a business development company (BDC), an investment vehicle that make investments in non-listed companies.

BBF: Separate listing platforms have been developed for start-ups to list on the Innovators Growth Platform. The issuers are in intensive use of technology, information technology, intellectual property, data analytics, biotechnology or nanotechnology and provide products, services, or business platforms with substantial value addition.

IX. Derivatives

Regulation, risk management, and investor protection were identified by associations as leading priorities.



Comments

KOFIA: CCP (central clearing counterparty), TR (trade depository) and initial margin requirements agreed by G20 countries are being adopted in phases in Korea. Moreover, regulatory reforms such as lowering entry barriers for retail investors are underway to prevent the contraction of the derivatives market due to strong regulations. Meanwhile, regarding the issuance of derivative-linked securities, measures to enhance market stability and the soundness of financial institutions will be put in place.

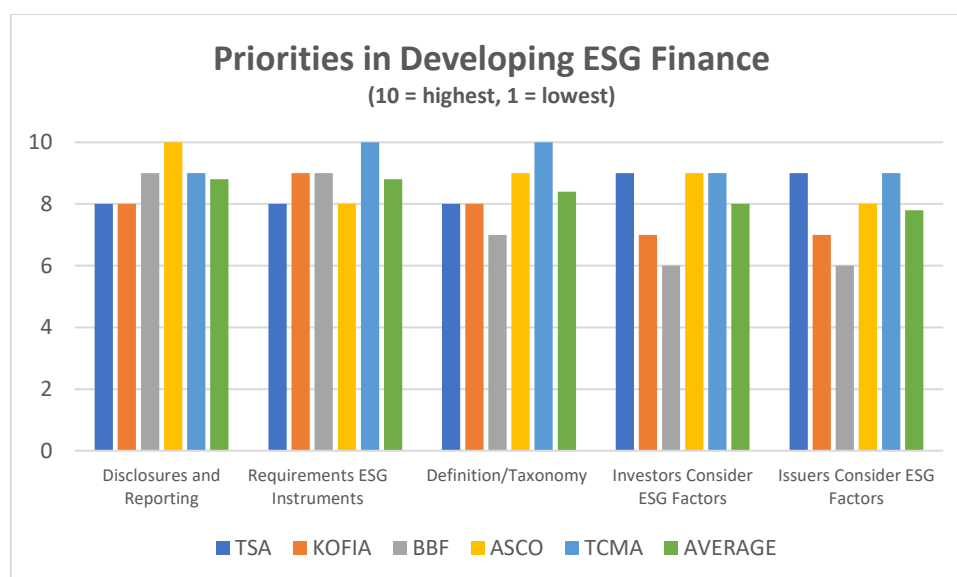
BBF: The regulator has developed a framework to Enable Verification of Upfront Collection of Margins from Clients in Equity and Derivatives segments.

AMIB: AMIB has been analyzing with the Central Bank (Banco de México) the opportunity areas identified by market participants. Among other projects, highlights are a) review of the market maker role, b) credit derivatives, c) hedge funds, d) securities lending market, e) simplification of new products approval.

In order to obtain relevant information about derivatives market from Mexican financial institutions, a questionnaire was published a few weeks ago. Findings will be presented to financial authorities, seeking to create a specific agenda to follow-up every project.

X. Sustainable Finance

Associations consider all the areas for development of ESG Finance as high priority.



Comments

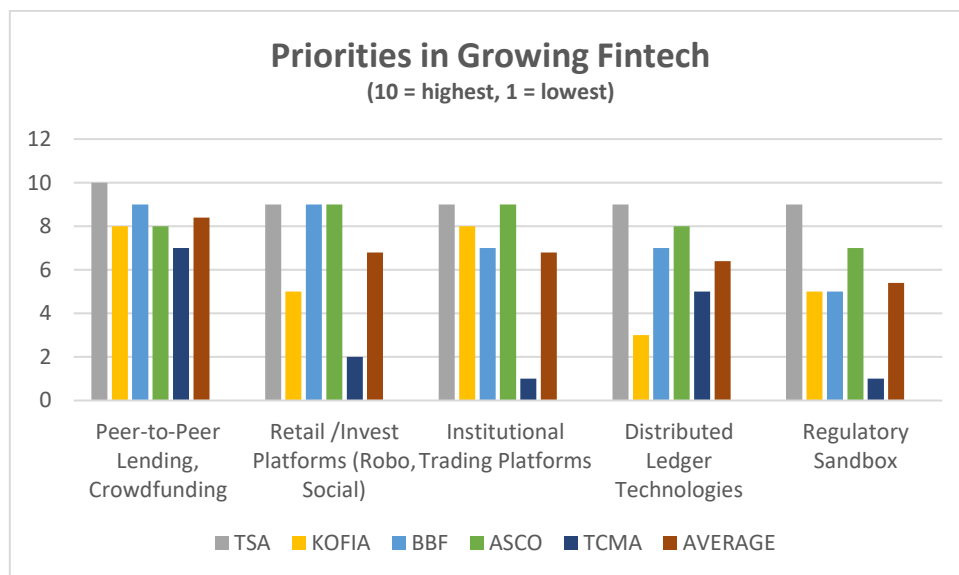
KOFIA: The Korean version of the Green New Deal began in the middle of 2020. Also, from 2021 companies that have assets valued at over USD 1.81 billion are requested to release their ESG data from 2025. Many Korean financial firms are working to comply with the ESG

related global standards and taking interest in doing ESG disclosures. ESG related funds are growing.

BBF: Top 1,000 listed entities must prepare Business Responsibility and Sustainability Report (BRSR) voluntarily for FY 2021-22 and mandatorily from the next fiscal year. The BRSR lays considerable emphasis on quantifiable metrics, which allows for easy measurement and comparability across companies, sectors and time periods and the format is aligned with internationally accepted reporting frameworks like the Global Reporting Initiative or Sustainability Accounting Standards Board standards.

XI. Fintech

Peer-to-Peer Lending and Crowdfunding are priorities at all the associations.



Comments

KOFIA: Support for financial investment companies to take part in new digital businesses includes

- Open Banking Service: access to nearly all banking services offered by any bank on a single platform, including transfers and checking account balance
- MyData: access to customers’ integrated personal credit information (deposits, loans, insurance, credit card records, financial investment instruments) on a single platform

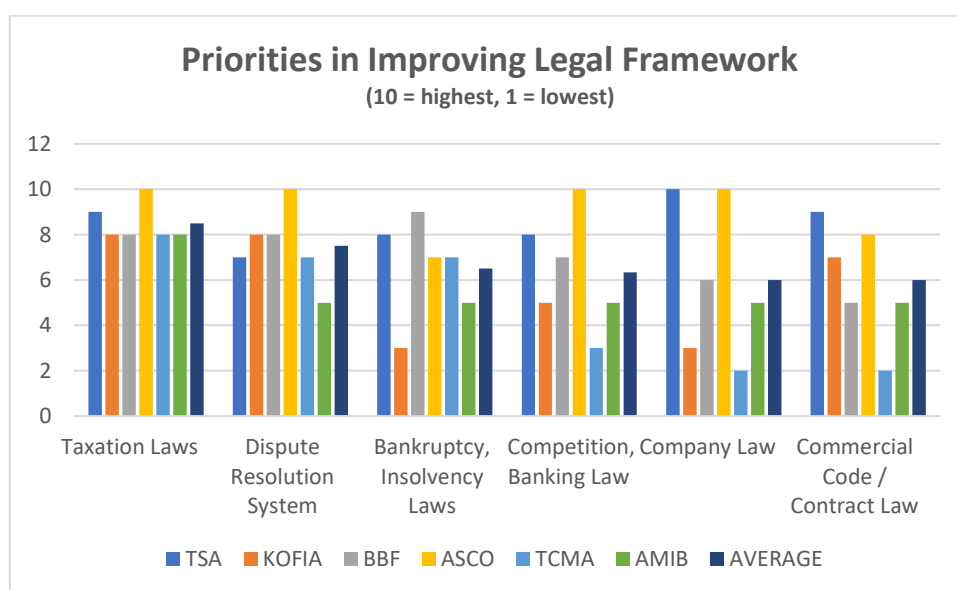
Financial investment companies have been joining open banking services in phases since December 2020. The financial authority’s approval process for MyData is now underway, with services offered beginning in August 2021.

BBF:

- The regulator has relaxed norms to allow fintech start-ups and other entities to enter/own the mutual fund (MF) business.
- Regulation has provided a framework for a regulatory sandbox which provides financial market participants facilities and flexibilities to experiment with financial technology (Fintech) solutions in a live and controlled environment on a limited set of real customers for a limited time frame.

XII. Legal Framework

Tax reforms and incentives are viewed as most important in helping to develop markets.



Comments

AMIB

Securities Lending Tax Regime: Modification of the tax regulation to specify that the withholding tax in a securities lending operation must be made only on the premium obtained by the lender and not on the total amount of the trade.

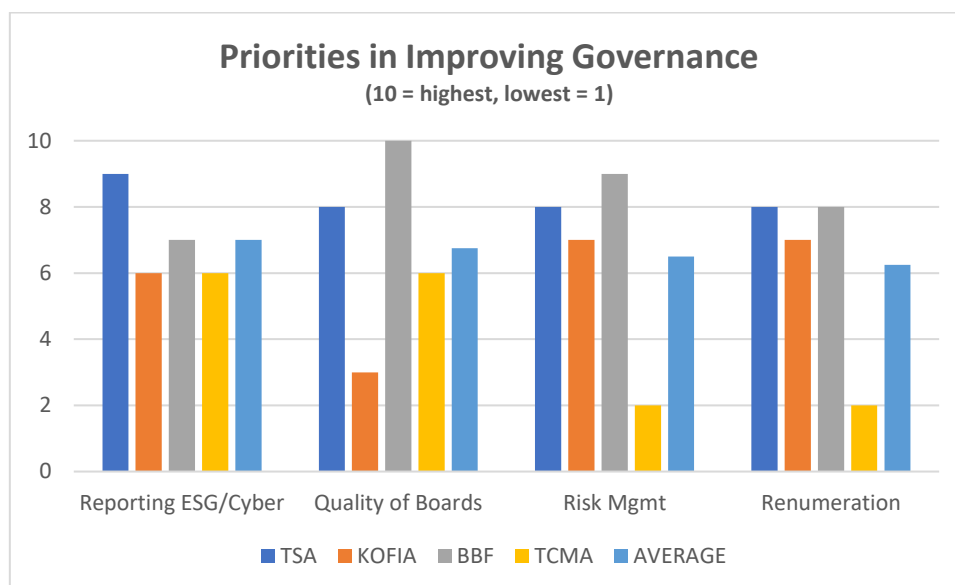
Securities Market Law: AMIB seeks to restart a project at a union level in order to file a proposal with the National Banking and Securities Commission to amend the Securities Market Law and therefore promote and encourage the growth and development of the securities market in Mexico.

Digital Onboarding: The authority is about to issue an amendment to the General Provisions in regard with the Customer identification procedures that the broker dealers must meet in order to execute contracts with it's clients on a digital basis.

KOFIA: Ongoing regulatory reforms include the regulatory sandbox for FinTechs, regulations on the expansion of BigTech firms into financial services, tax reform on financial investment products to encourage longer-term investment, and regulations for financial consumer protection.

XIII. Governance

All the specified areas are seen as priorities, with perhaps reporting of greatest focus.



Comments

KOFIA: To enhance corporate value by offering uniform and detailed information on corporate governance, Korean firms are mandated to provide a separate “Corporate governance report” since 2019.

BBF: Regulations which specify the norms for corporate governance for listed companies in India are largely in line with the OECD principles of corporate governance. Major emphasis is provided to Independent Directors & Gender Diversity on the Boards, separation of roles of Chairperson and MD / CEO, Stewardship Code and ESG Framework

Contributors

India



BBF

The Bombay Stock Exchange Brokers' Forum (BBF) is a not-for-profit, association of intermediaries of Indian Capital Market. With more than 700 members pan India, BBF is recognized by the Government/ Regulator/ Market Infrastructure Institutions as an apex body of the Indian Securities firms.

BBF advocates stable, competitive and efficient Indian capital markets that are necessary to support the region's economic growth.

Initiatives include consultations with regulators and exchanges, advocacy for enhanced markets through policy papers, seminars/ webinars/ workshops for members, international investment conference summits, sessions on Investor Education and Awareness and a monthly Capital Market & Life Lifestyle Magazine. <https://brokersforumofindia.com/>

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Korea



KOFIA

KOFIA is the sole self-regulatory organization (SRO) of the Korean financial investment industry, overseeing a wide spectrum of industry areas. KOFIA believes that self-regulation should be responsive, flexible, and market friendly. To effectively carry out its roles and functions as an SRO, KOFIA maintains the Self-Regulation Committee (SRC). The SRC is responsible for KOFIA's self-regulatory activities, such as making decisions on regulatory enactments and revisions, and imposing sanctions on member companies, corporate executives and employees who fail to comply with regulations. The committee is headed by a non-standing chairman. Currently, all local and foreign securities companies operating in Korea are members of KOFIA. <http://eng.kofia.or.kr/index.do>

KOFIA's main areas of self-regulation are:

- 1) Enacting regulations and codes of best practices for fair business activities
- 2) Reviewing standard agreements and advertisements
- 3) Conducting inspections of members
- 4) Registering and administering qualification exams for financial professionals
- 5) Mediating disputes between member companies and their customer

Mexico



AMIB

Founded in 1980, the mission of the Asociación Mexicana de Intermediarios Bursátiles A.C. (AMIB) is to encourage the growth, development, and consolidation of the Mexican financial industry and derivatives market in an appropriate environment for investment both at the national and international level.

Since 2002, AMIB was recognized as a self-regulatory organization and authorized by the National Banking and Securities Commission to be body of certification of brokers and representatives of brokerage firms, Mutual Fund Companies or any other financial dealer that operates in the Mexican financial industry.

AMIB promotes and spreads a sound financial culture in Mexico. AMIB also represents and defends the general interests of the Associates and Affiliates in any common issue before the public administration and private organizations. <https://www.amib.com.mx/>

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Taiwan



TSA

Founded in 1956, the main tasks of the TSA are to promote relationships and integrate opinions among securities firms, support growth, and develop securities markets. The TSA serves as a bridge between the competent authority and the securities firms, assisting the firms in complying with the regulations and improving their competitiveness. The TSA publishes periodicals and publications about both Taiwan and international market with information and analysis, participates in international organizations and activities, mediates disputes and conflicts among member companies, promotes the education of the public, and works to enhance market discipline.

<http://www.csa.org.tw/ENG/Welcome.htm>

Thailand



ASCO

ASCO “Association of Thai Securities Companies” was first established in 1973 to develop and promote the country’s capital and securities market, protect and safeguard member companies, improve the standard of business operations, and cooperate with regulatory agencies in drafting rules and regulations to develop the infrastructure of the Thai capital market. In 2012, an SRO (Self-Regulatory Organization) function was added which issues guidelines for member companies to follow.

ASCO participated in establishing several organizations to support the operations of securities business of member companies, including the ASCO Training Institute, the Bond Dealers Club, the Bangkok Stock Dealing Center, TSFC Securities the Federation of Thai Capital Market Organizations (FeTCO), the Investment Banking Club, the Compliance Club, the Information Technology, the Back Office Operation Club, and the Futures Industry Club. <http://www.asco.or.th/about.php>

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Turkey



TCMA

The Association of Capital Market Intermediary Institutions of Turkey was established in March 2001 as a self-regulatory organization in the Turkish capital markets. The brokerage houses and banks that are authorized for capital market operations constitute the members of the Association. Aims:

- Contribute to the development of the capital markets,
- Facilitate solidarity among its members,
- Safeguard prudent and disciplined conduct of business by its members,
- Prevent unfair competition,
- Enhance professional knowhow. Activities of the Association:
- Establish professional rules and regulations,
- Propose changes in capital market rules and regulations,
- Set safety measures to prevent unfair competition,
- Conduct investigations,
- Impose disciplinary action,
- Conduct research and offer educational programs,
- Assist in the resolution of disputes arising from off exchange transactions among its members or between its members and investors,
- Cooperate with related foreign institutions.

<https://www.tspb.org.tr/en/>