



ICSA

INTERNATIONAL COUNCIL of SECURITIES ASSOCIATIONS

Introduction of New Financial Products in Emerging Market Countries

ICSA Emerging Markets Committee

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INTRODUCTION OF NEW FINANCIAL PRODUCTS IN EMERGING MARKET COUNTRIES

After the 2008 financial crisis that was partially a result of high risk and complex financial products, there was a global aversion from risky investment instruments. Despite this global aversion, some emerging market countries introduced new and usually more complex products that were not available in their markets before. It is argued that the expansion of the range of available instruments can ensure better management of institutional or individual risks. Still, the introduction of these types of financial products is somewhat paradoxical given the concerns about risk and financial stability that arose with the financial crisis.

In addition, there were additional concerns that retail investors in numerous developed market economies were not duly informed about the extent of the risks associated with specific investments and that financial intermediaries did not perform appropriate suitability/appropriateness tests to determine whether their clients had sufficient knowledge to understand the financial risks that they were taking.

The current study being undertaken by ICSA's Emerging Market Countries seeks to determine the extent to which:

- 1) More "risky" types of financial products are being introduced in emerging market economies; and
- 2) Whether or not financial market regulations have been updated sufficiently in order to address the potential risks of the newly introduced financial products.

MANDATE

Considering the importance of the new financial products for the financial markets, and recent regulations that have been taking shape (at both international and national levels), ICSA Emerging Markets Committee decided to work on the development of the new financial products in emerging markets. During the Interim Meeting of ICSA on September 20, 2013, ICSA members approved the ICSA EMC's proposal.

The following members of the ICSA EMC contributed to the report.

1. Asociación Mexicana de Intermediarios Bursátiles (AMIB)
2. Association of Capital Market Intermediary Institutions of Turkey (TSPAKB)
3. Association of Thai Securities Companies (ASCO)
4. Bombay Stock Exchange Brokers' Forum (BSE BF)
5. Bulgarian Association of Licensed Investment Intermediaries (BALII)
6. Korea Financial Investment Association (KOFIA)

EXECUTIVE SUMMARY

This report focuses on the structure and characteristics of the new financial products that are introduced since 2008 in Bulgaria, India, Korea, Mexico, Thailand and Turkey. Major findings and policy recommendations are summarized in this section, while individual country reports are presented in the following pages.

Regulatory Framework

The regulatory structure in these six countries is broadly similar, although differences exist in details. Generally speaking, the main regulator of the capital markets regulates the new financial products. In some countries such as India, Mexico and Thailand, the Ministry of

Finance, central bank, banking regulator or insurance regulator also has a role in designing new products.

In all of the countries included in this study, the new financial instruments are defined in the legislation. These new instruments are as follows:

- Warrants, preferred shares, margin purchases and short sales (Bulgaria)
- Currency options, interest rate derivatives, equity futures and options (India)
- 10-yr KTB futures, single stock futures, lean hog futures and mini gold futures (Korea)
- Real Estate and Infrastructure Investment Trusts (REITs) and Certificates of Capital Development (CKDs) (Mexico)
- Real Estate Investment Trusts (REITs) and Infrastructure Funds (IFF) (Thailand)
- Leveraged forex trading, warrants, certificates and exchange traded options (Turkey).

Size of the Markets for New Financial Products

The size and liquidity of new financial products vary a great deal from one country to another. In general terms, the markets in Korea and Turkey are larger as compared to other countries in this report. The market for new financial products in Bulgaria is relatively smaller in terms of trading volumes. Although the new products (i.e. REITs and IFFs) that have been recently introduced in Thailand and Mexico are very similar, the size of the market in Mexico is comparatively larger.

Settlement and Custody

Korea, Mexico and Thailand have already established a CCP which helps the process of clearing and settlement of market transactions. Although there is a CCP in Turkey, only one type of product is settled through it, currently.

Disclosure Requirements

In Bulgaria, Thailand, Mexico and Turkey the issuers of the products must disclose an offering prospectus, including key information on those products and information that may affect the investment decisions of investors. In Turkey, a risk notification form should be read and signed by the investor before starting trading of risky instruments.

Role of SROs

SROs seem to have limited roles in the introduction of new financial products. On the other hand, SROs are supervising their members' compliance with the code of conduct and ethical rules, including their activities in the market. In Turkey, the SRO publishes the risk notification form for risky products which should be given to investors by the intermediaries before they start trading.

POLICY RECOMMENDATIONS

The following measures are recommended for the development of the new financial products in emerging countries.

1. Some of the new financial products may have tax advantages, or in some cases the tax treatment of new products may not be clear. The regulators need to consider the taxation of these products to ensure equal and fair treatment. Taxation should be designed so as not to create market distortions.
2. SROs may have several roles for the development of the markets for new financial products. They may issue risk disclosure forms to streamline the suitability of products for investors. Additionally, they can provide training to market professionals to improve the quality of the services and advice they offer. Regulators should take measures to improve the contribution of SROs for the development of new financial products.

3. CCPs offer a number of cost and risk management benefits. A key benefit of central clearing is the netting of transactions between market participants, which simplifies outstanding exposures. Perhaps the most important benefit, however, is the role that a CCP plays in the event of the default of one of its members. CCPs have a number of rules and resources in place to manage such a default in an orderly way. Regulators should evaluate the costs and benefits of establishing a CCP in their own jurisdictions.
4. Product and issuer registration requirements, as well as disclosure and suitability rules contribute to the soundness and safety of markets. Regulators should regularly revise their rules in a way to ensure proper implementation of suitability rules, especially when new products are introduced to the market.
5. Post trade transparency and collateral requirements are crucial in the development of the secondary markets for new products. Regulators should improve the secondary market infrastructure and disclosure rules.
6. Investor education programs have a key role in the development of the markets for new financial products. Informed investors would be better able to assess the suitability of these products for their own investment objectives and understand the inherent risks of these products. Regulators should introduce and support investor education programs in their jurisdictions while ensuring that these products are properly addressed in these programs.

INTRODUCTION OF NEW FINANCIAL PRODUCTS IN BULGARIA

I. REGULATORY FRAMEWORK

- **Main regulator for financial products.**

The main regulator for financial products is the Financial Supervision Commission. The website of the Commission is at www.fsc.bg. The Financial Supervision Commission (FSC) was established on March 1st, 2003 under the Financial Supervision Commission Act. The Commission is a specialized government body for regulation and control over different segments of the financial system – capital market, insurance market, health insurance market, pension insurance market. The primary mission of the institution is to assist through legal, administrative and informational means for the maintenance of stability and transparency on the non-banking financial sector, and to ensure the protection of the consumers of financial services and products.

- **Major regulations issued since January 2008 that introduced new financial products (names of relevant regulations will suffice).**

Major regulations issued since January 2008 that introduced new financial products are:

- Law on Public Offering of Securities (LPOS);
- Markets in Financial Instruments Act (MiFIA);
- Law on Collective Investment Schemes and Other Undertakings for Collective Investment (LACISOUCI).
- Financial Supervision Commission's Ordinance No. 38 on the requirements applicable to the Activity of Investment Intermediaries (Ordinance No. 38);
- FSC's Ordinance No. 16 on the Conditions and Procedure for Execution of Margin Purchases, Short Sales and Lending of Financial Instruments (Ordinance No. 16).

As the only new financial instruments that have been issued since 2008 are 2 issues of warrants, 3 issues of preferred shares and limited quantity of margin buying and short selling transactions, we are supplying all the relevant decisions from the Financial Supervision Commission:

1. Warrants:

Decision of the Commission on 9.11.2009

The Commission approved a prospectus for the public offering of 5,966,800 dematerialized freely transferable warrants having par value of BGN 0.17 each issued by „**Enemona**“ **AD (JSC)**, **Kozloduy**, a public company listed on the Bulgarian Stock Exchange-Sofia JSC (BSE). They entitled their holders to exercise within a six-year term the right to subscribe the relevant number of shares from the underlying assets of the warrants with a par value of BGN 1 each and issue value of BGN 18.50 as well as they entitled the owners to one vote at the general meeting of warrants' owners. On 11.02.2010 the above issue of 5,966,792 warrants was entered in the Register kept by FSC with aggregate value of BGN 1,014,354.64.

Decision of the Commission on 11.08.2010

The Commission approved a prospectus for the public offering of 79,963 of dematerialized freely transferable warrants, having an issue value of BGN 4 each, issued by „**Investor.BG**“

AD, Sofia. They entitle their holders to exercise within a five-year term the right to subscribe the relevant number of shares from the underlying assets of the warrants with an issue value of BGN 12.40 per share. On 20.10.2010 the above issue of warrants was entered in the Register kept by FSC.

2. Preferred shares:

Decision of the Commission on 22.04.2009

The Commission approved a prospectus for initial public offering of an issue of shares, issued by „**Chimimport**“**AD**, Sofia for the purpose of increasing the company's capital stock. The issue amounted to 90,000,000 preferred shares without a right to vote with a par value of BGN 1 each and issue value of BGN 2.22, with the right to a guaranteed dividend at the rate of 9% on the issue value of the new share and guaranteed liquidation stake (a proportionate stake of the assets upon winding up). The FSC entered 89,646,283 shares from the above issue in its register on 09.07.2009 as a result of an increase in the company's share capital.

Decision of the Commission on 18.11.2009

The Commission approved a prospectus for the public offering of an issue of personal, dematerialized, freely transferable and convertible preferred shares issued by „**Enemona**“**AD**, **Kozloduy**. The issue amounted to 5,966,800 shares with an issue value of BGN 9.92. Those shares converted into ordinary shares on the seventh year from registration. The FSC entered 1,102,901 common shares without a right to vote with a par value of BGN 1 each from the above issue in its register on 01.04.2010 as a result of an increase of the company's share capital.

Decision № 522 of the Commission on 11.08.2010

The Commission approved a prospectus for initial public offering of an issue of preferred shares issued by „**Mekom**“ **AD**, Silistra. The issue amounted to 14,000,995 dematerialized, freely transferable and convertible preferred shares without a right to vote, with a par and issue value of BGN 1 each and with 18% guaranteed dividend. On 23.03.2011 284,775 warrants from the above mentioned issue were entered in the Register kept by FSC as a result of increase in the company's share capital.

3. Short Sales:

Decision of the Commission on 15.04.2008

The Commission adopted Ordinance amending Ordinance No. 16 on The Conditions And Procedure for Execution Margin Purchases, Short Sales and Lending of Financial Instruments. The new ordinance introduced changes along the following lines:

- Professional and non-professional retail clients were enabled to enter into contracts for lending of securities and execute short sales;
- Putting regulations in place obligating the Central Depository to create a system for intermediation in the case of lending of financial instruments, for the purpose of ensuring the settlement of short sales, lending and repaying borrowed financial instruments. The Central Depository creates conditions for investment intermediaries, which lend or borrow financial instruments, to have access to the system.

On 09.09.2008 an agreement was signed according to which the Central Depository AD undertook to provide information to Bulgarian Stock Exchange about the financial instruments with which short sales and margin purchases might be executed and which might be used as collateral on these financial products. Thus the regulated market would fulfil its obligation in accordance with Art. 9, paragraph 2 of Ordinance No. 16 to announce every day, after the closing of the trade session, a list of the financial instruments eligible for that type of operations.

- **Types of the new instruments defined in the legislation:**

The New Financial products which actually started trading are the following types:

1. Warrants
2. Margin purchases
3. Short sales
4. Preferred shares

Following the amendments in LACISOUCI, regulations were introduced allowing the establishment of exchange-traded funds (ETF). A new chapter 3 was added to Section 2 of the law. It contains the requirements applicable to the establishment and trade in ETF. LACISOUCI in its amended version also regulates the establishment of alternative investment funds (AIF) and the requirements applicable to the activity of AIF. Existing AIFs were required to register with the FSC, the deadline being January 20, 2014.

LACISOUCI also introduced a special variety of non-UCITS, the so called "national investment funds" (NIF) which are a type of AIF designated for sale to retail and professional investors that can be offered to the public based on approved by the FSC prospectus. NIF can be also managed by licensed AIF managers.

The Bulgarian Stock Exchange-Sofia AD established a new segment for structured products. Following the amendments to LACISOUCI the BSE contemplates the creation of a new segment for exchange traded products. This segment of the BSE's market will accommodate trade in both structured products and ETFs.

- **Types of institutions that can issue those instruments:**

Each public company can issue warrants and preferred shares. All investment intermediaries are allowed to offer margin purchases and short sales to their clients. Management companies can launch ETFs and manage their activity as well as conclude contracts with market makers on behalf of the ETFs. AIF may be distributed by investment intermediaries and managers of AIF. Management companies as well as AIF managers will also be able to establish NIF. Banks and investment intermediaries can distribute AIF as well as launch structured products for trade on the BSE.

- **Types of intermediaries that can trade these instruments:**

All investment intermediaries (including banks which can perform activity as investment intermediaries if the license issued by the Bulgarian National Bank which is the Central Bank of Bulgaria includes the activities performed by investment intermediaries under the MiFIA) can trade in these new financial products.

- **Types of investors that can invest in those instruments, if defined or restricted:**

Generally all types of investors can invest in these instruments. There are no restrictions with regard to retail investors, with the exception of certain investment funds and AIF designated only for institutional investors which cannot be marketed to retail non-professional investors, however not by operation of law but due to the restrictions contained in their rules or articles of association. Certain types of institutional investors such as collective investment schemes (UCITS type of funds) and pension funds might have prudential rules limiting or excluding naked short sales.

II. SIZE OF THE MARKETS

- **Historical, annual statistics since 2008, about the size of the newly introduced financial products. Number of products, trading volume, number and size of issues (preferably in US\$).**

Having in mind that the legislation in the field of short sales and margin purchases is too burdensome and bureaucratic and few shares meet the stringent requirements, only one local brokerage house has made an attempt to trade these financial instruments but these trades had insignificant total value (several thousands of BGN), due to overall low liquidity and depth of the market. Therefore a market for trading in margin purchases and short sales practically doesn't exist currently.

Financial Instrument	Volume since 2008 (lots)	Value since 2008 (US\$)
Warrants		
ZNOA (Enemona)	1,355,137	379,278
Total Warrants:	1,355,137	379,278
Preferred Shares		
E4AP (Enemona)	856,539	3,235,590
6C4P (Chimimport)	24,607,620	35,103,088
MKXA (Mekom)	70,384	23,808
Total Preferred Shares	25,534,543	38,362,487

III. ISSUANCE

- **Conditions for issuers (issuer restrictions, capital restrictions, rating requirements etc.). Summary of the issue process**

As already mentioned, there are no conditions or restrictions for issuing those instruments, with few exceptions concerning prudential rules applicable to certain categories of institutional investors. Every public company is allowed to issue warrants or preferred shares and all investment intermediaries and respectively their clients can trade in all these instruments.

- **Are there any problems with issuing new instruments or the issue process?**

There are no technical or major legal problems concerning the issuing of warrants and preferred shares. The main reason for the small market of these instruments is related to the small overall size of the market and poor liquidity. The new rules of the Central Depository specifying the types of membership and providing the operation of clearing members, direct members and non-clearing members also provide all necessary conditions for trading in new products as well as for their clearing and settlement. As for ETF, NIF and AIF, the new legal framework provided by LACISOUCI creates the appropriate conditions for their establishment and marketing to investors.

The main burdens for the margin purchases and short selling development are the lack of a clearing house acting as CCP in Bulgaria and managing risks related to such trades as well as the need to further amend Ordinance No. 16 of the FSC once a CCP starts operating.

IV. COST OF ISSUES

- **Are there problems with the costs of issuing those new financial products? Mainly regulatory costs, such as fees paid to the regulator, exchanges or other authorities and institutions.**

There are no particular problems about those costs. The fees paid to the regulator, BSE and the Central Depository are within reasonable limits. They are certainly lower than the fees and charges paid by market participants and companies in the region and they cannot be a significant deterring factor or a factor influencing investment decisions.

V. TRADING

- **Where does trading take place; exchanges or OTC?**

All the new instruments that have been described above are traded on the regular market – the Bulgarian Stock Exchange- Sofia. It is also possible to trade warrants and preferred shares OTC.

- **How are those new products traded? Market making or continuous trading?**

All these four types of new financial instruments are traded on the Bulgarian Stock Exchange. They are traded by way of continuous trading.

ETFs by definition will be traded by market makers. Retail investors wouldn't be able to directly redeem shares and units of ETFs.

AIF will be marketed to institutional investors OTC, as a rule. As for NIF, they will be sold to the public through the marketing channels of the relevant management company managing their activity. Currently CIS are sold and redeemed directly by the management companies at NAV plus/minus front-end or back-end loads (if any). However, due to the regulatory approach assumed by Parliament and the national regulator, CIS historically have been required to be listed on BSE and traded there in parallel to the OTC sales and redemptions effected by management companies and third parties to which sales and redemptions have been delegated.

Following the amendments of LACISOUCI and the introduction of rules regulating ETFs the FSC should decide whether to terminate that dual regime requiring CIS which are not ETFs to be traded OTC only. The asset management business considers that the current regime should be preserved since a great number of management companies lack a developed sales network and they prefer leaving an option to investors to trade their CIS units on the stock exchange – the tax regimes of OTC sales and redemptions and exchange trade in CIS are identical.

- **Who are investing in or trading in those products? Domestic retail, institutional or foreign investors?**

Only local and small retail dealers have made trades on several occasions with margin purchases and short sales. Transactions in warrants are with small volume mainly concluded by local investors. All types of investors can invest or trade in preferred shares. The preferred shares attracted significant interest by local institutional investors. CIS units have

a history of sales to international investors. EU based UCITS also are marketed in Bulgaria attracting a huge amount of local investors.

VI. SETTLEMENT AND CUSTODY

- **How are the transactions of those new instruments settled? Settlement dates, settlement institutions etc.**

There are standard rules about the settlement of warrants and preferred shares – i.e. they are settled just like the regular stocks.

It is necessary that the investment intermediary opens a new account with the Central Depository in order to settle transactions of margin purchases and short sales.

- **Is there a central counter party?**

No, currently there is not an operating CCP.

VII. DISCLOSURE REQUIREMENTS

- **What are the disclosure requirements for those new instruments?**

The disclosure requirements for warrants and preferred shares are just like for any regular stock.

The Bulgarian stock exchange announces every day if there were margin purchases or short selling during the day.

- **What are the disclosure requirements for issuers of those new instruments?**

The disclosure requirements for issuers are standard, just like for any other instrument. UCITS as well as NIF are required to issue in addition to a prospectus a document with key information for investors.

VIII. RATINGS

- **Are there rating requirements for issues or issuers?**

No, there are generally no rating requirements for issuers.

- **Are there rating requirements for certain investor groups? (for example, are there rating requirements for institutional investors to invest in those new instruments?)**

Certain institutional investors, especially pension funds might have prudential requirements limiting or excluding investment in securities with no rating or with no investment grade rating and non-rated issuers might not be eligible for investments by such institutional investors.

IX.ROLE OF SROs

- **Are SROs involved in any aspect of the markets of those new products, such as regulating the OTC trading, disclosure requirements, data publication, etc.?**

No, they are not. However, the associations of licensed investment firms (BALIF), of Banks in Bulgaria (ABB) and asset management companies (BAAMC) are very active in public consultations regarding the legal regime of issuing new products and their opinion is taken into consideration when making the final legal regulations.

X. OTHER ISSUES

- **Are there any restrictions for individual investors to invest in those new products?**

No, there are not.

XI.RECOMMENDATIONS

- **Recommendations for the development of the new markets in your jurisdiction, including proper management of the risks associated with those products in the market.**

Recommendations:

The recommendations for the development of the new financial instruments are related with creating conditions for the development of margin purchases, short sales, exchange - traded fund (ETF) and structured products over the Bulgarian index.

As far as the margin purchases and short sales are concerned, the main recommendation is related with creation and development of a working clearing house operating as CCP. The local Central Depository is currently working on this, so there might be good news in the next quarters.

INTRODUCTION OF NEW FINANCIAL PRODUCTS IN INDIA

Indian capital market has been one of the most vibrant markets since it finds huge favor in terms of Foreign Institutional participation. With the 1.2 billion population and average GDP growth in last 10 years of 8%, India tends to be one of the most favored destination for portfolio flows.

I. REGULATORY FRAMEWORK

Main regulator for the new financial products

Regulatory agencies:

The product-wise demarcations of regulatory space for various regulators are as following:

- The Securities and Exchange Board of India (SEBI) - investment products and mutual funds
- Reserve Bank of India (RBI) – banks, NBFCs, credit products, savings and remittances
- The Insurance Regulatory and Development Authority (IRDA) - insurance products
- The Pension Fund Regulatory and Development Authority (PFRDA) - pension products. The Forward Markets Commission (FMC) – commodities -based trading products.

Central government ministries:

Along with these regulators, certain ministries of the government are also involved in policy making in the financial system:

- Ministry of Finance (MoF) is most prominently involved, through its representatives on the Boards of SEBI, IRDA and RBI.
- MoF and Ministry of Small Scale Industries have representatives on Small Industries Development Bank of India (SIDBI) Board
- Ministry of Urban Development is represented on the National Housing Bank (NHB) Board.
- MoF representatives are also on Boards of public sector banks and Development Finance Institutions (DFIs).
- Under the Ministry of Consumer Affairs, Forward Market Commission (FMC) regulates commodity exchanges and brokers.

Major capital market laws

- SEBI Act
- RBI Act
- Companies Act
- Income Tax Act
- Insurance Act
- Securities Contract (Regulation) Act

Functions of Market Regulators

SEBI REGULATORY FUNCTIONS

1. Regulation of Business in the Stock Exchanges.
2. Registration and Regulation of the Working of Intermediaries and Mutual Funds, Venture Capital Funds & Collective Investment Schemes.

3. Prohibiting fraudulent and unfair trade practices and insider trading in the securities market.
4. Investor education and the training of intermediaries.
5. Inspection and inquiries.
6. Regulating substantial acquisition of shares and take-overs.
7. Performing such functions and exercising such powers under the provisions of the Securities Contracts (Regulation) Act, 1956 as may be delegated to it by The Central Government;
8. Levying fees or other charges for carrying out the purposes of this section.

DEVELOPMENTAL FUNCTIONS

1. Promoting investors' education and training of intermediaries.
2. Conducting research and publishing information useful to all market participants.
3. Promotion of fair practices and self-regulatory organizations.

Over lapping of regulations

Broadly speaking, in India there are separate regulators for specific products. In most of the occasions, the over lapping between the regulators and regulations is quite minimal and there is coordinated approach between/amongst regulators. However, there were few instances where a degree of overlap between regulations and regulators was experienced. One such instance is ULIP products (Unit Linked Insurance Product) which is a hybrid instrument having features of insurance as well as Mutual Funds. Hence, there was an overlap regarding the supervision of this instrument as mutual fund are regulated by SEBI and insurance products are regulated by IRDA. In such a situation, the finance ministry has stepped in to resolve the differences and streamline the regulatory framework.

To address any such future inconsistencies, Finance Ministry has constituted a committee named "FSDC" or Financial Stability Development Council to look into the entire regulatory architecture of India so that:

- The redundant old regulations can be scrapped and replaced with new set of guidelines keeping into account the current day realities of changing India.
- To identify and deliberate the areas of overlapping regulatory aspects so that the appropriate measures can be taken on proactive basis so that any further conclusion can be smoothly addressed and general confidence on regulations can be improved.

Cross border investments in terms of capital market intermediaries.

RBI regulations

Foreign Institutional Investors (FIIs), Non-Resident Indians (NRIs), and Persons of Indian Origin (PIOs) are allowed to invest in the primary and secondary capital markets in India through the Portfolio Investment Scheme (PIS). Under this scheme, FIIs/NRIs can acquire shares/debentures of Indian companies through the stock exchanges in India. The ceiling for overall investment for FIIs is 24% of the paid up capital of any Indian company and 10% for NRIs/PIOs. The limit is 20% of the paid up capital in the case of public sector banks, including the State Bank of India. The ceiling of 24% for FII investment can be raised up to sectorial cap/statutory ceiling, subject to the approval of the board and the general body of the company passing a special resolution to that effect. And the ceiling of 10% for NRIs/PIOs can be raised to 24% subject to the approval of the general body of the company passing a resolution to that effect.

The ceiling for FIIs is independent of the ceiling of 10/24% for NRIs/PIOs. The equity shares and convertible debentures of the companies within the prescribed ceilings are available for purchase under PIS subject to:

- the total purchase of all NRIs/PIOs both, on repatriation and non-repatriation basis, being within an overall ceiling limit of 24% of the company's total paid up equity capital and 24% of the total paid up value of each series of convertible debenture; and
- the investment made on repatriation basis by any single NRI/PIO in the equity shares and convertible debentures not exceeding 5% of the paid up equity capital of the company or 5% of the total paid up value of each series of convertible debentures issued by the company.

Foreign Direct Investment in India

Foreign Direct Investment (FDI) in India is undertaken in accordance with the FDI Policy which is formulated and announced by the Government of India. The Department of Industrial Policy and Promotion (DIPPR), Ministry of Commerce and Industry, Government of India issue a "Consolidated FDI Policy Circular" on an annual basis on March 31 of each year (since 2010) elaborating the policy and the process in respect of FDI in India.

Entry routes for investments in India

Under the Foreign Direct Investments (FDI) Scheme, investments can be made in shares, mandatorily and fully convertible debentures and mandatorily and fully convertible preference shares of an Indian company by non-residents through two routes:

- **Automatic Route:** Under the Automatic Route, the foreign investor or the Indian company does not require any approval from the Reserve Bank or Government of India for the investment.
- **Approval Route:** Under the Approval Route, the foreign investor or the Indian company should obtain prior approval of the Government of India, Ministry of Finance, Foreign Investment Promotion Board (FIPB) for the investment.

Eligibility for Investment in India

A person resident outside India (other than a citizen of Pakistan) or an entity incorporated outside India, (other than an entity incorporated in Pakistan) can invest in India, subject to the FDI Policy of the Government of India. A person who is a citizen of Bangladesh or an entity incorporated in Bangladesh can invest in India under the FDI Scheme, with the prior approval of the FIPB.

Type of instruments

- i. Indian companies can issue equity shares, fully and mandatorily convertible debentures and fully and mandatorily convertible preference shares subject to the pricing guidelines / valuation norms and reporting requirements amongst other requirements as prescribed under FEMA (Foreign Exchange Management Act) and its Regulations.
- ii. Issue of other types of preference shares such as, non-convertible, optionally convertible or partially convertible, have to be in accordance with the guidelines applicable for External Commercial Borrowings (ECBs).
- iii. As far as debentures are concerned, only those which are fully and mandatorily convertible into equity, within a specified time would be reckoned as part of equity under the FDI Policy.

SEBI's Take Over Code

- SEBI Take over regulations provide for disclosure of acquisition/sale of shares beyond certain specified percentages in listed companies.
- SEBI Take over regulations provide for making of a tender offer to acquire shares from the shareholders of the target company when the acquisition exceeds certain specified limits.

- The acquisition could be by an entity or a group of entities acting in concert with one another, direct or indirect.
- Mandatory requirement of acquisition specific disclosure cautions the existing management of an impending hostile bid by an acquirer
- The mandatory tender offer and the norms for determination of offer price provide for complimentary exit opportunity to the shareholders while enhances the value of shares held by them
- Exemptions from mandatory tender available for internal transfers among promoters, relatives, group companies, schemes of arrangement under India or Foreign law, takeover panel etc.
- Provides for limit on creeping acquisition of 5% in a financial year in respect of acquirers holding more than 15% and less than 55% of shares or voting rights
- Clauses which make it difficult for acquirers to make frivolous offers and acquisitions

Foreign Portfolio Investors

In order to provide for uniform entry norms for foreign portfolio investors in India, existing FIIs, Sub Accounts and QFIs shall be merged into a new investor class termed as Foreign Portfolio Investors (FPIs).

FPIs will be required to seek registration with Designated Depository Participants (DDPs) authorized by SEBI. DDPs will be empowered to register FPIs on behalf of SEBI. The applicant FPIs need to meet risk based Know Your Client (KYC) requirements and obtain registration in any one of the following categories based on their risk based KYC:

a. Category - I – this would include Government and Government related entities such as Foreign Central Banks, Sovereign Wealth Funds, Multilateral Organizations/Agencies.

b. Category - II - this would include appropriately regulated broad based funds such as Mutual Funds, Investment Trusts, Insurance/Reinsurance Companies, other broad based funds; appropriately regulated entities such as Banks, Asset Management Companies, Investment Managers/Advisors, Portfolio Managers; University Funds, Pension Funds and University related Endowments already registered with SEBI as FII/Sub Account.

c. Category - III – All other foreign investors investing in India under Portfolio Investment Scheme (PIS) route (not included in above 2 categories) such as Endowments, Charitable Societies/Trusts, Foundations, Corporate Bodies, Trusts, Individuals, Family Offices, etc.

The registration granted to FPIs by the DDPs on behalf of SEBI shall be permanent unless suspended or cancelled by SEBI.

The details of the KYC requirements needed for registration are detailed in Annex.

Transition rules

- All existing FIIs and Sub Accounts may continue to buy, sell or otherwise deal in securities under the FPI regime.
- All existing QFIs may continue to buy, sell or otherwise deal in securities till the period of 1 year from the date of notification of FPIs regulation by SEBI. In the meantime, they may obtain FPI registration through DDPs.

Investment avenues

- FPIs shall be allowed to invest in all those securities, wherein FIIs are allowed to invest.
- Category I and Category II FPIs shall be allowed to issue, or otherwise deal in ODIs, directly or indirectly. Such ODIs can be issued only to persons who are regulated by an appropriate foreign regulatory authority after ensuring compliance with KYC norms.

Designated Depository Participants

- DDP shall be an Authorized Dealer Category-1 bank authorized by Reserve Bank of India (RBI), Depository Participant (DP) and Custodian of Securities registered with SEBI.
- Depository shall forward the application of DDP along with its recommendation to SEBI for grant of approval.
- SEBI registered Custodian of Securities shall be deemed to be DDP subject to conditions.
- SEBI approved Qualified Depository Participant not meeting the DDP eligibility criteria may operate as DDP for a period of 1 year.
- DDPs shall carry out necessary due diligence and obtain appropriate declarations and undertakings before registering FPIs

II. SIZE OF THE MARKETS

India market size has enormous potential to become a major global force to reckon with the credit for having a huge market size in India is largely attributed to the fact that the India is the second most populated country in the world. Owing to the liberal government policies, the India market size has increased of late as it has witnessed the entry of new players to the Indian market scene.

- **Labor Market:** The labor market in India is among one of the cheapest in the world. The labor market consists of workforce in the entire three sectors primary, secondary and tertiary sector.
- **Money Market:** The Money Market in India deals with all the aspects related to the lending and borrowing of funds. Since the India market size is huge, performance in the country's money market depends on a variety of factors. The money market is closely connected to the foreign exchange market. The varied types of India money market instruments are treasury bills, repurchase agreements, commercial papers, certificate of deposit, and banker's acceptance.
- **Commodity Market:** The Commodity Market comprises of exchange of goods that is estimated in terms of the domestic currency. The wholesale market and the retail market are important components of the commodity market.
- **Capital Market:** Capital Market deals with all the assets of the country. Here both the government and public companies can raise short term and long term funds, depending on their requirements. The bond market and the share market come under the capital market.

Groups of financial products are;

- Banks
- Money Markets
- Capital Markets
- Asset/ Fund based
- Fee based

Indian Capital markets exchange platform

Indian equities are traded on three major national exchanges: Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE) and MCX Stock Exchange Limited (MCX-SX).

Bombay Stock Exchange (BSE)

BSE is the oldest stock exchange in Asia. The extensiveness of the indigenous equity broking industry in India led to the formation of the Native Share Brokers Association in 1875, which later became Bombay Stock Exchange Limited (BSE). BSE is widely recognized due to its pivotal and pre-eminent role in the development of the Indian capital market.

- In 1995, the trading system transformed from open outcry system to an online screen-based order-driven trading system.
- The exchange opened up for foreign ownership (foreign institutional investment).
- Allowed Indian companies to raise capital from abroad through ADRs and GDRs.
- Expanded the product range (equities/derivatives/debt).
- Introduced the book building process and brought in transparency in IPO issuance.
- T+2 settlement cycle (payments and settlements).
- Depositories for share custody (dematerialization of shares).
- Internet trading (e-broking).
- Governance of the stock exchanges (demutualization and corporatization of stock exchanges) and internet trading (e-broking).

BSE has a nation-wide reach with a presence in more than 450 cities and towns of India. BSE has always been at par with the international standards. It is the first exchange in India and the second in the world to obtain an ISO 9001:2000 certifications. It is also the first exchange in the country and second in the world to receive Information Security Management System Standard BS 7799-2-2002 certification for its BSE Online Trading System (BOLT).

Benchmark Indices futures: BSE 30 SENSEX, BSE 100, BSE TECK, BSE Oil and Gas, BSE Metal, BSE FMCG

National Stock Exchange (NSE)

NSE was recognized as a stock exchange in April 1993 under the Securities Contracts (Regulation) Act. It commenced its operations in Wholesale Debt Market in June 1994. The capital market segment commenced its operations in November 1994, whereas the derivative segment started in 2000. NSE introduced a fully automated trading system called NEAT (National Exchange for Automated Trading) that operated on a strict price/time priority. This system enabled efficient trade and the ease with which trade was done. NEAT had lent considerable depth in the market by enabling large number of members all over the country to trade simultaneously, narrowing the spreads significantly. The derivatives trading on NSE commenced with S&P CNX Nifty Index futures on June 12, 2000. The futures contract on NSE is based on S&P CNX Nifty Index. The Futures and Options trading system of NSE, called NEAT-F&O trading system, provides a fully automated screen based trading for S&P CNX Nifty futures on a nationwide basis and an online monitoring and surveillance mechanism. It supports an order-driven market and provides complete transparency of trading operations.

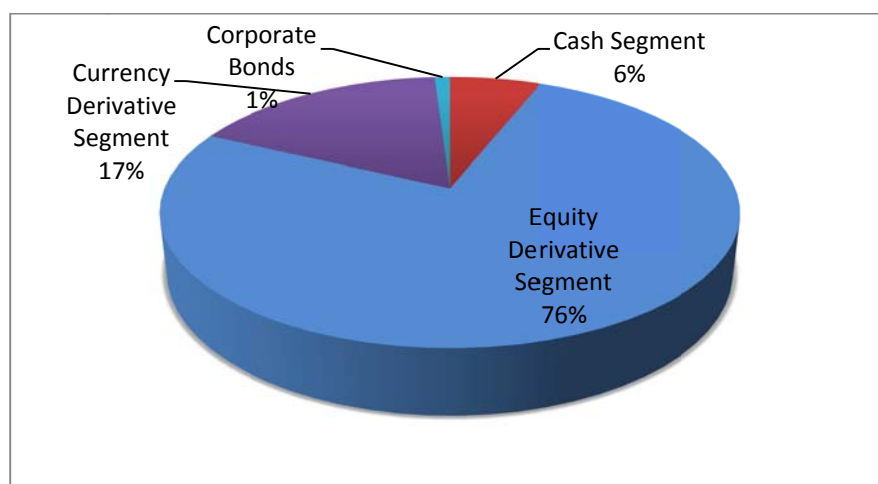
Benchmark Indices futures: Nifty Midcap 50 futures, S&P CNX Nifty futures, CNX Nifty Junior, CNX IT futures, CNX 100 futures, Bank Nifty futures

MCX Stock Exchange

MCX Stock Exchange Limited (MCX-SX), India's new stock exchange, is recognized by the Securities and Exchange Board of India (SEBI) under Section 4 of the Securities Contracts (Regulation) Act, 1956. The Exchange was granted the status of a 'recognized stock exchange' by the Government of India on December 19, 2012. In line with global best practices and regulatory requirements, clearing and settlement of trades is conducted through a separate clearing corporation-MCX-SX Clearing Corporation Limited (MCX-SX CCL).

MCX-SX commenced operations in Currency Futures in the Currency Derivatives segment on October 7, 2008 under the regulatory framework of SEBI and Reserve Bank of India (RBI). The Exchange commenced trading in Currency Options on August 10, 2012. The Exchange received permissions to deal in Interest Rate Derivatives, Equity, Futures and Options on Equity and Wholesale Debt segments, with SEBI's letter dated July 10, 2012. The Exchange further received permission to commence trading in these new segments, with SEBI's letter dated December 19, 2012. The Exchange commenced trading in the Equity segment on February 11, 2013.

Aggregate breakup of value traded in the secondary market in 2013



No. Of Registered Stock Brokers	2012	2013
Registered Stock Brokers in the beginning of the year	9,235	9,307
Addition during the Year	256	1,081
Reconciliation / Cancellation/ Surrender of Memberships	184	260
Registered Stock Brokers as on March 31	9,307	10,128
No. Of Registered Sub-Brokers*		
(* As of March 31 of the respective year)	77,165	70,178

Number of Registered FIIs, Sub-accounts and Custodians		
Particulars	As on March 31, 2012	As on March 31, 2013
Number of FIIs	1,765	1,757
Number of Sub-accounts	6,322	6,335
Number of Custodians	19	19

Names of some of the key domestic institutions: Life Insurance Corporation (LIC), General Insurance Corporation (GIC), State Bank of India (SBI), etc.

III. ISSUANCE

An issuer may make an initial public offer, if:

(a) It has net tangible assets of at least three crore rupees in each of the preceding three full years (of twelve months each), of which not more than 50% are held in monetary assets. Provided that if more than 50% of the net tangible assets are held in monetary assets, the issuer has made firm commitments to utilize such excess monetary assets in its business or project. Provided further that the limit of 50% on monetary assets shall not be applicable in case the public offer is made entirely through an offer for sale.

(b) it has a minimum average pre-tax operating profit of rupees fifteen crore, calculated on a restated and consolidated basis, during the three most profitable years out of the immediately preceding five years.

(c) it has a net worth of at least one crore rupees in each of the preceding three full years.

(d) The aggregate of the proposed issue and all previous issues made in the same financial year in terms of issue size does not exceed five times its pre-issue net worth as per the audited balance sheet of the preceding financial year;

(e) if it has changed its name within the last one year, at least 50% of the revenue for the preceding one full year has been earned by it from the activity indicated by the new name.

Pricing

(1) An issuer may determine the price of specified securities in consultation with the lead merchant banker or through the book building process.

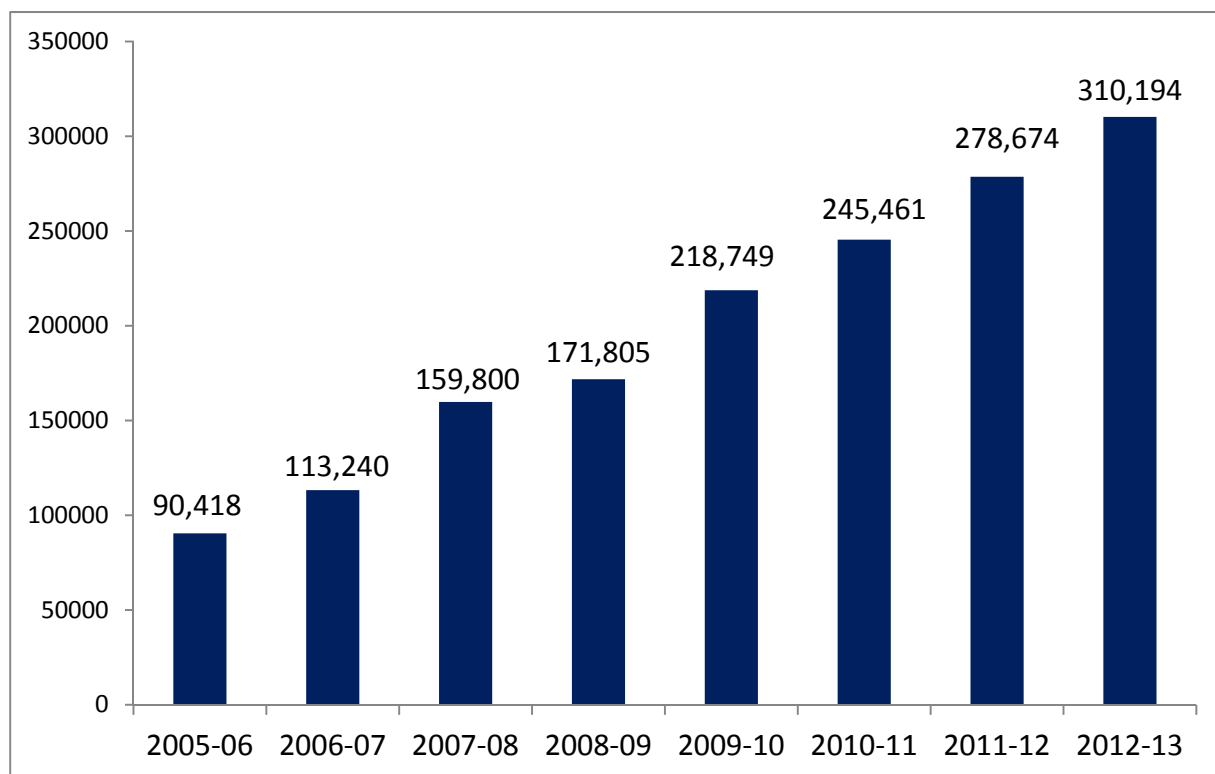
(2) An issuer may determine the coupon rate and conversion price of convertible debt instruments in consultation with the lead merchant banker or through the book building process.

(3) The issuer shall undertake the book building process in a manner specified in Schedule XI.

IV. COSTS OF ISSUES

- Interest cost of issues related to international borrowings in the form of External Commercial Borrowings (ECB) @ London Inter-Bank Offered Rate (LIBOR) + (100-500 bps)
- Interest cost of issues related to domestic borrowings @ 10% to 18% per annum
- Expenses related to borrowing issuances cost about anywhere between (0.1%-0.5%) of amount borrowed
- Expenses related in the case of equity issuances, the cost of issuances comes to (1-3%) of the amount of the fund raised.

India's Foreign Exchange Reserves (Rs. Million)



V. TRADING & SETTLEMENT

The important settlement types are as follows:

- Normal segment (N)
- Trade for trade Surveillance (W)
- Retail Debt Market (D)
- Limited Physical market (O)
- Non cleared TT deals (Z)
- Auction normal (A)

Trades in the settlement type N, W, D and A are settled in dematerialized mode. Trades under settlement type O are settled in physical form. Trades under settlement type Z are settled directly between the members and may be settled either in physical or dematerialized mode.

Dematerialized settlement

National Securities Clearing Corporation Ltd (NSCCL) follows a T+2 rolling settlement cycle. For all trades executed on the T day, NSCCL determines the cumulative obligations of each member on the T+1 day and electronically transfers the data to Clearing Members (CMs). All trades concluded during a particular trading date are settled on a designated settlement day i.e. T+2 day. In case of short deliveries on the T+2 day in the normal segment, NSCCL conducts a buy-in auction on the T+2 day itself and the settlement for the same is completed on the T+3 day, whereas in case of W segment there is a direct close out. For arriving at the settlement day all intervening holidays, which include bank holidays, NSE holidays, Saturdays and Sundays are excluded. The settlement schedule for all the settlement types in the manner explained above is communicated to the market participants vide circular issued during the previous month.

Physical settlement

To provide an exit route for small investors holding physical shares in securities the Exchange has provided a facility for such trading in physical shares not exceeding 500 shares in the 'Limited Physical Market' (small window).

Salient features of Limited Physical Market

- Delivery of shares in street name and market delivery (clients holding physical shares purchased from the secondary market) is treated as bad delivery. The shares standing in the name of individuals/HUF only would constitute good delivery. The selling/delivering member must necessarily be the introducing member.
- Any delivery of shares which bears the last transfer date on or after the introduction of the security for trading in the LP market is construed as bad delivery.
- Any delivery in excess of 500 shares is marked as short and such deliveries are compulsorily closed-out.
- Shortages, if any, are compulsorily closed-out at 20% over the actual traded price. Non rectification/replacement for bad delivery is closed out at 10% over the actual trade price. Non rectification/replacement for objection cases is closed out at 20% above the official closing price in regular market on the auction day.
- The buyer must compulsorily send the securities for transfer and dematerialization, latest within 3 months from the date of pay-out.
- Company objections arising out of such trading and settlement in this market are reported in the same manner as is currently being done for normal market segment. However securities would be accepted as valid company objection, only if the securities are lodged for transfer within 3 months from the date of pay-out.

Market Timings

Trading on the equities segment takes place on all days of the week (except Saturdays and Sundays and holidays declared by the Exchange in advance). The market timings of the equities segment are:

A) Pre-open session

Order entry & modification Open : **09:00 hrs**

Order entry & modification Close : **09:08 hrs***

*with random closure in last one minute. Pre-open order matching starts immediately after close of pre-open order entry.

B) Regular trading session

Normal / Retail Debt / Limited Physical Market Open : **09:15 hrs**

Normal / Retail Debt / Limited Physical Market Close : **15:30 hrs**

Block deal session is held between **09:15 hrs** and **09:50 hrs**

C) The Closing Session is held between 15.40 hrs and 16.00 hrs

Procedure for Pay-in and Pay-Out of Securities

Pay-in of securities

Pay-in shall be conducted on the scheduled pay-in day, in accordance with the settlement calendar periodically issued by the Clearing Corporation in this regard. Members shall maintain settlement accounts at both depositories with NSDL and Central Depository Services (India) Limited (CDSL). Specific pay-in instructions have to be given in case of pay-in through NSDL. For pay-in through CDSL the security balances need to be available in the members pool account by the pay-in cut off time.

Auto Delivery Out

For pay-in through NSDL a facility has been provided to members wherein delivery-out instructions will be generated automatically by the Clearing Corporation based on the net

delivery obligations of its Clearing Members. These instructions will be released on the T+1 day and the securities in the Clearing Members' pool accounts will be marked for pay-in.

Early pay-in of securities

NSCCL provides a facility to Trading Clearing Members to make early pay-in of securities through NSDL and CDSL. In cases where early pay-in of securities is made, such positions for which early pay-in (EPI) of securities is made are exempt from margins. The EPI is allocated to clients having net deliverable position, on a random basis. However, members are required to ensure to pass on appropriate early pay-in benefit of margin to the relevant clients.

Procedure for making early pay-in of shares

Members can make the early pay-in of securities through either of the depositories with NSDL and CDSL. In NSDL, members shall deliver the securities to their CM Pool Account and execute irreversible delivery out instructions through their Depository Participant, for the particular settlement. In CDSL, members have to open separate early pay-in account with CDSL through NSCCL. Members are requested to contact their respective DP's for details on procedure to be followed for doing early pay-in at the depository.

In addition, the following facility is being provided to all members making early pay-in of securities.

- Members shall receive a report on the extranet server at regular intervals throughout the day, detailing the early pay-ins made by the members and received by the Clearing Corporation. Such details shall be provided intra-day on an incremental basis.
- Further members may make early pay-in of securities even before execution of the trade and provide details of clients to whom such early pay-in shall be allocated. This shall ensure that on execution of trade the benefit of early pay-in is available to the respective clients. However it will be subject to receipt of securities from depositories.
- Members shall make early pay-in only in respect of settlement type 'N' and 'W'.

Members shall provide the details of the clients to whom early pay-in benefit is to be provided through a file upload. Members can upload of client details file during the day through "Collateral Interface for Members (CIM)". Members shall receive return file providing details of successful and rejected records on the extranet server. Members can modify the client and quantity details by uploading an incremental file.

Pay-out of Securities

Pay-out shall be conducted on the scheduled payout day, in accordance with the settlement calendar issued periodically by Clearing Corporation in this regard. Pay-out shall be affected by 1:30 p.m. in accordance with SEBI Circular Ref No SMD/POLICY/Cir-6/03 dated February 6, 2003. Payout shall be to the member's pool account.

Direct pay-out to Beneficiary Account

A facility is provided to the members to directly credit the pay-out to investor's beneficiary account. Clearing members shall provide a file to Clearing Corporation for effecting pay out to investors' accounts for a particular settlement type and settlement number. Clearing members have to mention the beneficial owner's account number entitled to receive the payout of securities. The direct payout of securities can be credited to the client's account regardless of the depository in which the securities pay-in is received.

The clearing member can provide own settlement account details if the clearing member intends to receive full or part payout of securities, which is not identified for direct client account payout, in the settlement account with specific depository. This information can be

provided in the same file. The clearing member shall provide depository participant ID and depository participant client ID if the settlement account is with NSDL or CM Settlement account number if the settlement account is with CDSL.

Failure to deliver

Failure of the seller to deliver securities shall result in buy-in auction for the shares by Clearing Corporation as per auction schedule declared periodically. Currently auction shall be conducted on T+3 day and settled on T+4 day. The short delivering member shall not be allowed to offer in the auction for the respective security. Auction shall not be conducted in respect of those sub-segments where shortages are directly closed-out and where the securities are under corporate actions.

The auction amount shall be charged to the short delivering member. Failure to procure shares in auction shall be closed out. Pay-in and pay-out for auction shall happen along with normal.

Settlement Guarantee Fund, Clearing Corporation or the Exchange to Maintain Settlement Guarantee Fund

The Clearing Corporation or the Exchange shall maintain Settlement Guarantee Fund (s), either separately or jointly, in respect of different clearing segment(s) for such purposes, as may be prescribed by the Relevant Authority from time to time.

The Relevant Authority may prescribe from time to time the norms, procedures, terms and conditions governing each Settlement Guarantee Fund which may, inter-alia, specify the amount of deposit or contribution to be made by each clearing member to the relevant Settlement Guarantee Fund, the terms, manner and mode of deposit or contributions, conditions of repayment of deposit or withdrawal of contribution from the Settlement Guarantee Fund, charges for utilization, penalties and disciplinary actions for non-performance thereof.

VI. CORPORATE GOVERNANCE

Clause 49 of the Listing Agreement, which deals with Corporate Governance norms that a listed entity should follow, was first introduced in the financial year 2000-01 based on recommendations of Kumar Mangalam Birla committee. After these recommendations were in place for about two years, SEBI, in order to evaluate the adequacy of the existing practices and to further improve the existing practices set up a committee under the Chairmanship of Mr. Narayana Murthy during 2002-03. The Murthy committee, after holding three meetings, had submitted the draft recommendations on corporate governance norms. After deliberations, SEBI accepted the recommendations in August 2003 and asked the Stock Exchanges to revise Clause 49 of the Listing Agreement based on Murthy committee recommendations. The committee, thereafter, considerably revised the earlier recommendations and the same was put up on SEBI website on 15 December 2003 for public comments. It was only on 29 October 2004 that SEBI finally announced revised Clause 49, which will have to be implemented by the end of financial year 2004-05. These revised recommendations have also considerably diluted the original Murthy Committee recommendations. Areas where major changes were made include:

- Independence of Directors
- Whistle Blower policy
- Performance evaluation of nonexecutive directors
- Mandatory training of non-executive directors, etc.

The Independent Director

The revised Clause 49 requires the Independent Director to periodically review legal compliance reports prepared by the company and any steps taken by the company to cure any taint. The revised clause specifies that no defense shall be permitted that the independent director was unaware of this responsibility in case of any proceedings against him in connection with the affairs of the company.

Whistle Blower Policy

Companies have been required to formulate an Internal Policy on access to Audit Committees. Personnel who observe any unethical or improper practice (not necessarily a violation of law) can approach the Audit Committee without necessarily informing their supervisors. Companies are also required to take measures to ensure that this right of access is communicated to all employees through means of internal circulars, etc. The employment and other personnel policies of the company should also contain provisions protecting "whistle blowers" from unfair termination and other unfair or prejudicial employment practices. Companies have also been required to affirm that it has not denied any personnel access to the Audit Committee of the company (in respect of matters involving alleged misconduct) and that it has provided protection to "whistle blowers" from unfair termination and other unfair or prejudicial employment practices. Such affirmation should form part of the Board's report on Corporate Governance that is required to be prepared and submitted together with the annual report.

Promotion and Regulation of Self-Regulatory Organizations (SRO)

SEBI during 1996-96 took several steps to promote and regulate self-regulatory organizations. The measures taken by SEBI are discussed below.

Association of Merchant Bankers of India (AMBI)

AMBI was granted recognition to set up professional standards for providing efficient services and establish standard practices in merchant banking and financial services. It was promoted for healthy business practice and to exercise overall supervision over its members in the matters of compliance with statutory rules and regulations pertaining to merchant banking and other activities. AMBI in consultation with SEBI is working towards improving disclosures standards in the offer document as well as meeting the statutory requirement in a systematic manner.

Association of Mutual Funds of India (AMFI)

The Association of Mutual Funds of India (AMFI) has been set up. SEBI undertakes regular consultations with members of AMFI on various issues affecting mutual funds. In February 1997, SEBI held a meeting with trustees of all mutual funds to discuss with them their responsibilities for prudential oversight of mutual funds in the light of SEBI (Mutual Funds) Regulations, 1996.

Association of Custodial Agencies of India (ACAI)

Following the notification of the SEBI (Custodians of Securities) Regulations, 1997, custodians of securities have registered an association, ACAI. While ACAI is still in its preliminary stages, SEBI has been engaging in a dialogue with ACAI to streamline custodial practices and to ensure that custodians do not function in isolation from the clearing and settlement systems. ACAI has also highlighted to SEBI from time to time difficulties encountered by custodians on behalf of their clients who are mainly foreign institutional investors, domestic mutual funds, financial institutions, corporates and high net worth individuals.

Registrars Association of India (RAIN)

The Registrars Association of India (RAIN) is a self-regulatory organization for registrars to an issue and share transfer agents.

VII. OTHER ISSUES

- **Are there any restrictions for individual investors to invest in those new products?**

No, there is no such problem for individual investors to invest in those new products. However, in IPO retail investors can invest only up to 2 lakh rupee per issue.

RECOMMENDATIONS

India has to improve the bond markets and Interest Rate Futures market, which are both in early stage of evolution. According to Asia Securities Industry & Financial Markets Association (ASIFMA), the Asian industry body, the size of India's bond market, at 5.5% of GDP, is behind every country in Asia except for Indonesia. One of the most important factors needed to create a vibrant, attractive and accessible bond market is the freeing of interest rates to reflect market conditions, without artificial caps and floors. Work is also needed on the benchmark yield curve. In India, the 10-year, five-year and two-year government bonds are currently the main benchmarks in the bond market. The establishment of a benchmark at every level of the yield curve can provide investors and issuers a better way to gauge both long-and short-term securities, as it would set a risk-free rate across the yield curve from which corporate and infrastructure bonds can be priced.

INTRODUCTION OF NEW FINANCIAL PRODUCTS IN KOREA

I. REGULATORY FRAMEWORK

- **Main regulator for financial products.**

Financial Services Commission

- **Major regulations issued since January 2008 that introduced new financial products (names of relevant regulations will suffice).**

The Financial Investment Services and Capital Markets Act (FSCMA) enacted in February 2009

- **Types of new instruments defined in the legislation.**

Before the FSCMA was enacted, the name of each permitted financial product was stipulated within the law, but the FSCMA now uses a comprehensive definition for the concept of securities and derivatives. According to the FSCMA, securities are defined as financial investment instruments for which investors do not owe any obligation to pay anything in addition to the money or assets paid at the time of acquiring such instruments. Along with this comprehensive definition of securities, the Act also stipulates the types and concepts of equity securities and debt securities, and clearly states the inclusion of new types of securities such as investment contract securities, derivative-combined securities, etc. into the securities category. Derivatives are contractual rights falling under the categories of forwards, options and swaps, and the scope of the underlying assets are financial investment instruments, currencies (including any foreign currency), ordinary commodities, credit risks, and other risks that are of natural, environmental or economic phenomena, which can be computed or assessed by price, interest, indicator, or unit in a reasonable and appropriate way.

- **Types of institutions that can issue those instruments.**
- **Types of intermediaries that can trade those instruments.**
- **Types of investors that can invest in those instruments, if defined or restricted.**

Since we have a broad definition of financial products, types of institutions, intermediaries and investors permitted for each newly introduced product are all different.

II. SIZE OF THE MARKETS

- **Historical, annual statistics since 2008, about the size of the newly introduced financial products. Number of products, trading volume, number and size of issues (preferably in US\$).**

Trading volumes and values of newly introduced products

Name	2008		2009		2010		2011		2012	
	Volume (000)	Value (\$ mil)	Volume (000)	Value (\$ mil)	Volume (000)	Value (\$ mil)	Volume (000)	Value (\$ mil)	Volume (000)	Value (\$ mil)
10-yr KTB Futures (02.25.08)	10	454	8	0	33	3,450	3,504	378,535	13,045	1,479
Single Stock Futures (05.06.08)	11,552	6,846	36,972	16,055	44,718	22,101	59,966	35,302	100,491	60
Lean Hog Futures (07.21.08)	16	66	14	59	14	57	6	38	0	0
Mini Gold Futures (09.13.10)	-	-	-	-	31	154	182	979	23	0

Comparison of the trading volume of major exchange-traded derivatives by investor type

		Institutions							(Unit: %, %p)	
	Year	Financial		Investment Trust	Bank	Other Finances	Pension Funds	Other Corps	Individual	Foreign
		Investment	Insurance							
Single Stock Futures	2011	11.95	0.53	1.01	0.04	0	0.55	8.38	59.98	17.56
	2012	8.05	0.81	1.29	0.03	0.01	4.22	15.18	51.03	19.39
	Diff	-3.90	0.28	0.28	-0.01	0.01	3.67	6.80	-8.95	1.83
10-year KTB Futures	2011	68.07	1.74	1.23	16.42	0	0.43	0.01	2.18	9.93
	2012	72.92	0.37	0.75	13.28	0	0.27	0.02	1.61	10.79
	Diff	4.85	-1.37	-0.48	-3.14	0	-0.16	0.01	-0.57	0.86

III. ISSUANCE

- **Conditions for issuers (issuer restrictions, capital restrictions, rating requirements etc.).**
- **Summary of the issue process.**
- **Are there any problems with issuing new instruments or the issue process?**

There is no issuer for these products.

IV. COSTS OF ISSUES

- **Are there problems with the costs of issuing those new financial products? Mainly regulatory costs, such as fees paid to the regulator, exchanges or other authorities and institutions.**

There are normally no costs associated, but in the case where the product uses an underwriting index, like Mini Gold Futures, a small fee is paid.

V. TRADING

- **Where does trading take place; exchanges or OTC?**

At the Korea Exchange (KRX)

- **How are those new products traded? Market making or continuous trading?**

Continuous trading

- **Who are investing in or trading in those products?**

Anyone (domestic retail, institutional, foreign investors) can trade in these products.

VI. SETTLEMENT AND CUSTODY

- **How are the transactions of those new instruments settled? Settlement dates, settlement institutions etc.**

10 year KTB futures

Underlying Asset	10-Year Korea Treasury Bonds with 5% coupon rate and semi-annual coupon payment
Contract Size	KRW 100 million
Contract Months	The first two consecutive months in the quarterly cycle (March, June, September and December)
Trading Hours	09:00 – 15:15 (Last trading day: 09:00 – 11:30)
Tick Size	0.01 point, representing a value of KRW 10,000
Last Trading Day	Third Tuesday of the contract month
Final Settlement Day	The first business day after the last trading day
Settlement Type	Cash settlement
Position Limit	10,000 contracts (net open interest)
Listing date	February 25, 2008

Single Stock Futures

Underlying Asset *	25 stocks listed on the KOSPI market
Contract Months	4 contract months in the March quarterly cycle (March, June, September and December)
Last Trading Day	2nd Thursday of the contract month
First Trading Day	The first business day after the last trading day
Trading Hours	9:00 – 15:15 (Last trading day: 09:00 – 14:50)
Contract Size	10 shares
Settlement Type	Cash settlement

Tick Size

The price of single stock futures	Tick Size
Less than KRW 10,000	KRW 5
KRW 10,000 – Less than KRW 50,000	KRW 25
KRW 50,000 – Less than KRW 100,000	KRW 50
KRW 100,000 – Less than KRW 500,000	KRW 250
KRW 500,000 or more	KRW 500

Daily Price Limit	±15% of the base price
Quantity Limit of One Order	5,000 contracts
Margin Requirements	Member margin rate: 12% Customer margin rate: 18%
Position Limit (contracts) **	(No. of listed underlying stocks × 0.3%) ÷ Multiplier ※ Cut off from 100 contract unit
Listing Date	May.6.2008 (15 stocks) Dec.14.2009 (10 stocks)

* **Underlying Stocks:** GS Engineering & Construction Corp., Daewoo Securities Co., Ltd., Doosan Infracore Co., Ltd., NHN Corporation, Korean Air Lines Co., Ltd., Kia Motors Corporation, Samsung C&T Corporation, SK Hynix Inc., Hyundai Steel Co., Ltd., SK Energy Co., Ltd., Hana Financial Group, Hyundai Heavy Industries, Hyundai Motors, KB Financial Group, KEPCO, KT, KT&G, LG Display, LG Electronics, POSCO, Samsung Electronics, Shinhan Financial Group, Emart Company, Ltd., SK Telecom, Woori Financial Group

Lean Hog Futures

Underlying Asset	Lean Hog Index calculated by Animal Products Grading Service
Contract Size	1,000 kg
Contract Months	The six consecutive near months
Price Quotation	KRW per kilogram
Minimum Price Change	KRW 5
Value of Minimum Price Change	KRW 5,000 (5 X Multiplier 1000)
Last Trading Day	Third Wednesday of the contract month
First Trading Day	The first business day after the last trading day
Final Settlement Day	Last Trading Day (T)+2
Final Settlement	Cash settlement

Mini Gold Futures

Underlying Asset	Fine gold bars (99.99% pure)
Contract Size	100g
Listed Contracts	The first two consecutive months, and any February, April, June, August, October, December falling within a 11 month period
Tick Size	KRW10/g
Last Trading Day	The third Wednesday of the contract month (T)
First Trading Day	The second business day after the last trading day (T+1)
Final Settlement Day	The third business day counting from the last trading day (T+2)
Trading Hours	09:00 – 15:15
Quotation Receiving Hours	08:00 – 15:15
Price Quotation	Korean Won per gram
Price Limit	Base price \pm (Base price \times 9%) - Spread contracts 1) Nearest month+2nd nearest month 2) Nearest month+3rd nearest month 3) Nearest month+4th nearest month 4) Nearest month+5th nearest month 5) Nearest month+6th nearest month 6) Nearest month+Farthest month
Calendar Spread	- Limit order only - Trading hours : 09:00 – 15:05
Margin Requirements	- Member & Maintenance margin rate: 5% - Customer margin rate: 7.5%
Position Limit	3,000 contracts
Order Limit	1,000 contracts
Final Settlement Price*	London Gold Fixing Price \times 1/31.1035 (troy ounces to grams conversion) \times KRX/USD exchange rate (on the last trading day)
Settlement Type	Cash settlement

- **Is there a central counter party?**

Yes, the KRX.

VII. DISCLOSURE REQUIREMENTS, RATINGS, ROLE OF SROs

The KRX, as an SRO, discloses certain information, such as trading volumes and values, on these products on its website, and through its members, upon the approval of the Financial Services Commission. The KRX, as an SRO, when deemed necessary for market management, may request its members to report the matters relating to their trading and settlement or to submit the materials thereabout (According to the Derivatives Market Business Regulation of KRX). No rating is needed for these products.

VIII. OTHER ISSUES

After the global financial crisis in 2008, the FSC banned 7 securities companies that were licensed to deal derivatives products starting in 2009 from handling OTC derivatives of which the underlying assets are interest rates, currencies, commodities, and credit, as a regulatory measure for market risk management in 2009. Additional regulatory measures include the introduction of CCPs in 2013 for the better management of systemic risk. As a result of these efforts by the Korean government, credit risk has stabilized as shown in the big drop in CDS premiums, and the FSC announced in May 2013 that the 7 aforementioned securities companies would be allowed to handle OTC derivatives after reviewing their risk management capabilities.

INTRODUCTION OF NEW FINANCIAL PRODUCTS IN MEXICO

In the case of Mexico, there are mainly two new financial products introduced, although it is important to notice that they did not emerge as an effect of the global financial crisis of 2008. What mostly happened was that regulations were clarified and in other cases disclosure requirements and sales practices were intensified to already existing financial products¹.

I. REGULATORY FRAMEWORK

- **Main regulator for financial products.**
 - Ministry of Finance and Public Credit (SHCP).
 - National Banking and Securities Commission (CNBV).
 - The Mexican Exchange (BMV) as Self-Regulatory Organization.

- **Major regulations issued since January 2008 that introduced new financial products (names of relevant regulations will suffice).**
 - The Financial Reform: Amendments to the Securities Market Act (LMV), January 2014.
 - CNBV Instruction for securities issuers and other stock market participants (CUE). Several amendments have been enacted to this Instruction since 2008 with the last reform in January 2014.
 - CNBV Instruction addressed to Brokerage-firms and Credit Institutions related to investment services (Instruction on sales practices), last reform October 2013.
 - BMV internal regulation.

- **Types of new instruments defined in the legislation.**

The *Certificados Bursátiles Fiduciarios* (trust securities) formally emerged from the Securities Market Act of 2005. In 2009, in secondary regulation² they were named trust securities and were more precisely detailed. As part of the recent financial reform in 2014, some changes made to the Securities Market Act were enacted³, within them two types of these securities were specified at the law level, including their denomination as trust securities, plus specific requirements and practices of corporate governance. As mentioned before, there are basically two new instruments:

- The Real Estate and Infrastructure Trusts (REITs)⁴. In this kind of trust securities the resources raised from the issuance are allocated to investment in real estate developments, commercialization or management of companies carrying out such investments, or securities or rights of any kind on such real estate property, or a

¹ Other financial products such as structured notes were not considered within this study because these are mainly banking products and are out of the scope of AMIB.

² CNBV Instruction CUE.

³ See article 63 Bis 1 of the Financial Reform 2014 for the LMV.

⁴The Real Estate and Infrastructure Trusts (REITs) are locally known as *FIBRAs*. Their first precedent is before 2008, these special form of trusts were included as part of the exceptions with favorable tax treatment at the Income Tax Law (LISR) articles 223 & 224 and eventually evolved until they became trust securities.

combination of any of the aforementioned. They provide periodic payments (rent income) and also give the possibility of capital gains (appreciation).

- Certificates of Capital Development (CKDs): these trusts securities are aimed to finance one or more projects through the acquisition of one or more promoted companies, especially in sectors like infrastructure, real estate, mining, general business and technology development. Yields are variable and depend on the usufruct and benefit of each project with a certain maturity. A new feature for CKDs from the recent reform of 2014 is the possibility to make capital calls.

Both REITs and CKDs are considered by Mexican regulations as structured financial products⁵.

- **Types of institutions that can issue those instruments.**

Legal entities (companies, financial institutions, etc.), domestic or foreign, that under Mexican law have the legal capacity to subscribe credits.

It is important to mention that only credit institutions, brokerage-firms and mutual fund managers may act as trustees in trusts whose purpose is the issuance of stock certificates.

- **Types of intermediaries that can trade those instruments.**

Brokerage firms are the only intermediaries authorized to perform the placement of securities and to trade those instruments in the primary market.

- **Types of investors that can invest in those instruments, if defined or restricted.**

All types of investors, provided that the product is suitable with their investment profile according to CNBV Instruction on Sales Practices.

Changes within the Financial Reform 2014 to the Securities Market Act⁶ allow that a public offering of securities may be directed to certain classes of investors (qualified, sophisticated, institutional, etc.) provided that it is specified in the placement prospectus.

⁵ Structured products according to Mexican regulations are those securities with or without required payment of the principal or interests issued by trusts, financial institutions or any other company authorized by the applicable law for that purpose, whose yields, and where appropriate, the payment of the principal, will be referred to the performance of one or more underlying, regardless of the nature of the securities or documents in the record (Art. 1 XXIV of CNBV Instruction CUE).

⁶ Article 2, Section XVIII of the LMV.

II. SIZE OF THE MARKETS

- **Historical, annual statistics since 2008, about the size of the newly introduced financial products. Number of products, trading volume, number and size of issues (preferably in US\$).**

CKDs ⁷			
	Trading volume (mn. USD\$)	Amount placed (mn. USD\$)	Issues
2009	902.01	879.79	4
2010	1,723.93	1,718.97	9
2011	530.13	521.88	6
2012	1,479.73	1,478.22	10
2013	334.00	301.38	6
TOTAL	4,969.81	4,900.23	35

REITs ⁸			
	Trading volume (mn. USD\$)	Amount placed (mn. USD\$)	Issues
2011	4,493.83	290.83	1
2012	1,744.55	2,105.65	3
2013	13,032.14	4,100.06	6
TOTAL	19,270.52	6,496.54	10

III. ISSUANCE

- **Conditions for issuers (issuer restrictions, capital restrictions, rating requirements etc.).**

Certain conditions must be met in order to initiate the issuance process. The issuer must provide, among others, the following documentation:

- I. Deed of incorporation with its amendments.
- II. Listing Prospectus, and if deemed, informative supplement⁹.
- III. Annual financial statements audited by an external auditor based on accounting principles issued or recognized by the CNBV.
- IV. Legal opinion issued by an external and independent attorney plus the opinion of an independent third party authorized to issue opinions on taxation matters¹⁰.
- V. Rating on the credit risk of the issuing issued by at least one credit rating agency, issued no longer than 90 working days at the time of the placement¹¹.
- VI. Information of the guarantor, in case of guaranteed issues, as well as information of the guarantees, their constitution and form of execution.

In the case of trust securities, the information requested must be provided in respect of the property in trust, such as:

- The balance of the assets in trust.

⁷ Annual average exchange rate published by the Mexican Central Bank (BANXICO).

⁸ Idem.

⁹ There is an exception: the issuers of securities representing a liability with maturity of less than one year shall not be required to file the prospectus or supplement mentioned before. They must file a "key document for investment", which will form part of the placement prospectus.

¹⁰ The third party opinion on taxation matters was added as part of the amendments to the LMV in 2014.

¹¹ This fraction was added to CNBV Instruction CUE in 2009.

- An independent legal opinion considering the validity of the trust agreement, the existence of the assets in trust and powers of the trustee to affect these assets in the trust.
- In the case of trusts whose assets are composed of real estate, the relevant valid lien release¹² in respect of the property used in trust.
- Draft of the basic contract with the opinion on the trust subject to issuance.

In order to be considered as REITs, the trusts must:

- Be corporations or trusts under Mexican law.
 - Having 70% of the assets invested in real estate.
 - Dedicated to the construction, leasing, purchase and sale of real estate.
 - The trustee shall distribute among the holders, at least 95% of taxable income of the previous year.
 - The property in trust shall not be alienated before 4 years have passed since the completion of construction.
 - For a private offer: at least 10 persons not related parties, and none holding more than 20% of the certificates.
 - For a public offer: available to all investors.
- **Summary of the issue process.**

The issuing process for this kind of trust securities follows the same path as others, except for some special documentation required according to the nature of the instrument¹³.

The following timetable exemplifies a typical issuance of Exchange-traded securities:

¹² The lien release refers to the *certificado de libertad de gravamen* in Mexican legal terms.

¹³ In order to be offered to the public in Mexico, securities must be registered in the National Securities Registry (RNV), which is managed by the National Banking and Securities Commission (CNBV).

Time Table for the activities during the Issuance process of Exchange-traded securities (Approximately)

Issuer (I), Placement Agent (PA), Independent Lawyers (IL) CRA (Credit Rating Agency)

Activity	Responsible	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9
Legal proceedings & Drafting of documents										
Signature of the mandate	I, PA									
Hiring lawyers	I									
Preparing the documentation kit for the Registration of Securities at the FMV	I, PA, IL									
Preparation and processing of the information required by CNBV Instruction CUE	I, PA, IL									
Request letter of independence of auditors	I									
Prospectus & Supplement	I, PA, IL									
Appointment of the common representative	I									
Hiring a Credit Rating Agency	I									
Legal opinion and External audit opinion	I									
Review of documents, information and projects	I, PA, IL									
Final integration of application & the information kit for CNBV, BMV and Indeval	I, PA, IL									
Credit Rating Agencies (CRAs)										
Sending documentation to CRA	I, PA									
Analysis by the CRA	CRA									
Rating letter	I, PA									
Authorizations by CNBV & BMV										
Filing to CNBV & BMV	IL, PA									
Analysis by the Authorities	CNBV & BMV									
Response to comments issued by CNBV and BMV and delivery of additional documentation if applicable	IL, PA, I									
Last analysis by CNBV	CNBV									
CNBV issues authorization letter	IL									
Favorable opinion from BMV	BMV									
Road Show & Sale										
Plan & agenda of Road Show & One on One's	PA									
Preparation of materials for the Road Show	PA, I									
Road Show & One on One's with investors	PA, I									
Committee of Investors	PA									
Placement										
Publication of the Offer	PA									
Closing the Book	PA									
Publication of notice of placement with informative purposes	PA									
Crossing & settlement	PA									

• **Are there any problems with issuing new instruments or the issue process?**

Currently, there is no significant problem with the issuing process. During 2013 the CNBV, the BMV, Indeval and AMIB worked together to streamline the issuing process of securities in the Mexican market, achieving significant progress. In the case of structured securities, depending on the complexity of the structure, the issuance and the registration process for the offer may take from 1 to 2 months. It is expected that secondary regulation that will be enacted due to the Financial Reform 2014 will ease some disclosure requirements in this process when the instruments are addressed only to Institutional Investors.

IV. COSTS OF ISSUES

- **Are there problems with the costs of issuing those new financial products? Mainly regulatory costs, such as fees paid to the regulator, exchanges or other authorities and institutions.**

It is not considered to be any significant problem with the costs of issuing REITs and CKDs. The cost of each issuance is different and depends on the nature and amount of the issuance. CNBV's Instruction CUE, Annex H, provides guidance for drafting the placement prospectus. There are 2 common fees from the Exchange and from CNBV, others fees such as lawyers, external audits and other services that are typically involved in an issuance process are not mentioned because they vary considerably depending on the service provider and the project.

BMV fees¹⁴ for both REITs and CKDs		
Listing:	0.037% of the amount placed	
	Minimum 23,000 UDIs with a ceiling of 125,000 UDIs	Minimum USD \$8,929.25 with a ceiling of USD \$48,528.55
Maintenance:	0.044% of the amount in circulation	
	Minimum 23,000 UDIs with a ceiling of 150,000 UDIs	Minimum USD \$8,929.25 with a ceiling of USD \$58,234.26

CNBV fees¹⁵ for both REITs and CKDs		
Study and filing of application	\$18,245.85 MXP	USD \$1,428.85
Registration at the National Securities Registry (RNV)		
More than 1 year	0.9 to the thousand with a ceiling of \$2,903,929.28 MXP	0.9 to the thousand with a ceiling of USD \$227,410.14
Up to 1 year	0.65 to the thousand with a ceiling of \$813,100.20 MXP	0.65 to the thousand with a ceiling of USD \$63,674.84

V. TRADING

- **Where does trading take place; exchanges or OTC?**

Trust securities must be registered in the National Securities Registry (RNV), and should be listed and traded throughout the trading days in the stock exchange.

- **How are those new products traded? Market making or continuous trading?**

- REITs are traded as other stock at the principal market of BMV.
- CKDs are traded in a special section of the BMV called Capital Development Market.

¹⁴ UDIs are numerical units of measurement for credit instruments, trading contracts, and other financial operations. The value of the UDI changes every day and is calculated by BANXICO based on the information from the previous two weeks, which is calculated and published by BANXICO in the Diario Oficial de la Federación (Official Gazette). UDIs value can be found at <http://www.banxico.org.mx/portal-inflacion/index.html>. CNBV fees according to the Federal Act on fees for 2014 (<http://www.diputados.gob.mx/LeyesBiblio/pdf/107.pdf>). The equivalences in USD are considered with an average exchange rate in 2013 according to information of BANXICO, 1 USD = 12.7695 MXP. The UDI value at the time of conversion \$4.9575 MXP.

¹⁵ Idem.

Although it is possible to do market-making for these securities, there is no market-maker addressed specially for them, practically there is any secondary market for this kind of instruments either.

- **Who are investing in or trading in those products? Domestic retail, institutional or foreign investors?**

Mostly institutional investors due to the long-term nature of this kind of financial products.

VI. SETTLEMENT AND CUSTODY

- **How are the transactions of those new instruments settled? Settlement dates, settlement institutions etc., Is there a central counter party?**

As in other securities, the deposit and custody of these instruments take place at the Mexican Depository Institute (Indeval) and the Central Counter-Party (CVV) is in charge of the clearing and settlement.

Clearing and settlement of both REITs and CKDs are typically perfumed on T+2.

VII. DISCLOSURE REQUIREMENTS

- **What are the disclosure requirements for those new instruments?**

The placement prospectus must include in case of structured securities the following:

- Terms and date of maturity.
- Number of series in which the issuance is divided.
- Number of the trust and information related to the trust contract such as: names of the parties participants to the trust, assets, rights and securities in trust.
- Characteristics and general terms of the underlying assets.
- Historical performance of the underlying assets.
- Capital guaranteed.
- If relevant, the calculation agent.
- If applicable, the multiplier.
- Yields and calculation procedure.
- Where applicable, minimum yield.
- Applicable rate for the first interest period.
- Periodicity and form of amortization of the securities and, where appropriate, identification of causes and process for early amortization.
- Location, periodicity and proceeding for yield payments.
- Location and proceeding for the payment of amortization, where appropriate.
- Name of the common representative of the holders of the securities.
- Where appropriate, valuation opinion.
- The public offer notice shall contain the same information as the cover of the prospectus.

In addition, all the applicable disclosure requirements for traditional securities such as general information about the offer, the issuer, financial information, administration, underlying assets, responsible persons, rating on the credit risk of the issuance or program where applicable, etc.

In the specific case of CKDs, when the possibility of capital calls is provided, it shall be specified the terms and conditions that may apply, including the rights and obligations of the holders. The mechanism of capital calls involves changes in the number of certificates and the amount of the issue and must obey to what is stipulated in the trust and the issuance certificate, which forms part of the corresponding security.

- **What are the point-of-sale disclosure requirements for those new instruments?**

CNBV Instruction on Sales Practices establishes the suitability requirements for different types of investors, allowing to sale structured securities if the investor profile is suitable with the product. Furthermore, CNBV Instruction CUE establishes that people who invest in trust securities must sign a letter stating that they are aware of the risks of this kind of financial products. The Financial Reform 2014¹⁶ even considers a specific form for CKDs issued under the capital call mechanism that must be disclosed to investors.

CNBV instruction on Sales Practices also establishes the obligation for financial institutions to create a Committee that will be in charge of creating the different profiles for the clients and the profiles of the investing products. They also have to report to the CNBV the methodology they apply on this purpose.

VIII. RATINGS

- **Are there rating requirements for issues or issuers?**

Article 85 of the Securities Market Act (Financial Reform 2014), provides that in the case of debt instruments and trust debt securities at least one rating issued on credit risk of the issue by a credit rating agency authorized by CNBV.

Although there is not a specific rating scale required by Mexican regulation, CKDs or REITs with a rating of less than BBB are not considered as viable for placement by the issuer nor the structuring adviser. In addition, CRAs add a special symbol to the rating of structured issues¹⁷.

- **Are there rating requirements for certain investor groups? (for example, are there rating requirements for institutional investors to invest in those new instruments?)**

Yes, institutional investors as pension schemes (SIEFOREs) are restricted to invest from 0% up to 13% in structured financial products such as CKDs and REITs, depending on the investment regime to which they are subjected according to the classification established by the National Commission for Retirement Savings (CONSAR). For example, regulation forbids SIEFOREs classified as 1 to invest in CKDs but they may invest up to 5% in REITs while SIEFOREs classified as 3 and 4 may invest up to 13% in both REITs and CKDs.

Insurance companies are restricted by the National Insurance and Surety Commission (CNSF) to invest their actuarial reserves up to 5% in CKDs and up to 10% in other kind of structured products.

¹⁶ Amendments to CNBV Instruction CUE on January 30th 2014.

¹⁷ For example, the CRAs authorized in Mexico: Standard&Poors and Moody's use 'sf', Fitch uses 'vra', HR Ratings 'E' and Verum 'e'.

IX. ROLE OF SROs

- **Are SROs involved in any aspect of the markets of those new products, such as regulating the OTC trading, disclosure requirements, data publication, etc.?**

Data publication is done periodically at the BMV as for other securities.

X. OTHER ISSUES

- **Are there any restrictions for individual investors to invest in those new products?**

Those clients who are not considered as sophisticated clients¹⁸ according to regulation and wish to invest in structured securities must sign a letter stating that they are aware of the risky characteristics of structured products. The Financial Reform 2014 establishes a specific format for CKDs which are issued with the option of capital calls.

XI. RECOMMENDATIONS

- **Recommendations for the development of the new markets in your jurisdiction, including proper management of the risks associated with those products in the market.**

REITs are instruments that allow investors to diversify their capital in a sector which is becoming very attractive in Mexico. They offer the possibility of high returns (cash) in comparison to other investments, due to the distribution requirements of taxable income (the trustee must distribute to the holders, at least 95% of taxable income for the previous year) and the potential capital appreciation of the REITs' certificates in line with the increase in property value. They have provided market access to the Mexican real estate sector as an investment option through securities that have very good marketability and broad diversification with respect to exposure by geographic area and type of property.

Through CKDs the Mexican Securities Market has managed to boost infrastructure projects (roads, airports, ports, railways, water, electricity etc.), business, real estate, mining, technology and private equity in recent years significantly. They have helped to channel resources to growth sectors and activities, providing flexibility and new ways of diversifying portfolios to institutional investors and qualified the country. CKDs yields (partial or total) are linked to assets or underlying assets in trust. It should be noted that yields are variable and uncertain and depend on the results of each particular project.

¹⁸ According to CNBV Instruction on Sales practices of September 2013, a sophisticated client is the person who keeps on average over the last twelve months, investment in securities in one or more financial institutions, in an amount equal to or greater than 3,000,000 (three million) of UDIs, or obtained in each of the past two years, annual gross income equal to or greater than 1,000,000 (one million) of UDIs.

INTRODUCTION OF NEW FINANCIAL PRODUCTS IN THAILAND

In this study, we intend to focus on the new exchange-traded financial products that were introduced in Thai capital market during the past 5 years, which are;

- Real Estate Investment Trusts: REITs
- Infrastructure Fund: IFF

These new financial products are at their initial stage of development, but we believe they will play an important role in the evolution of Thailand's capital market and become effective fund raising vehicles for Thailand in the future.

I. REGULATORY FRAMEWORK

- **Main Regulator for Financial Products**

At present, the financial products in Thai capital market are regulated under different jurisdictions depend on types of institutions. In general, the Ministry of Finance (MoF) oversees every aspect of Thailand banking and financial services industry, but it delegates routine supervision and administration of the capital market to the Securities and Exchange Commission (SEC), and that of the banking sector to the Bank of Thailand (BOT).

In terms of financial products that study in this report; REITs and Infrastructure funds, the major regulators are the Securities and Exchange Commission (SEC) and the Stock Exchange of Thailand (SET)

The Securities and Exchange Commission regulates the equities market as well as the bonds market under the Securities and Exchange Act B.E.2535. The SEC focuses mainly on primary market supervision. A company wishing to issue new securities or offer more securities to the public must first obtain the SEC's approval and comply with its filing requirements. The SEC also responsible for the supervision of intermediaries including securities companies, asset management companies and derivatives business operators as well as license approval for market professionals in the capital market such as financial advisors, auditors, credit rating agencies, etc.

The Stock Exchange of Thailand is a self-regulatory organization that governs its members' conduct and member companies in securities dealings. It is also responsible for marketplace surveillance, supervises and enforces disclosure standards for listed companies and issuing regulation on listing securities in Thai Exchange.

- **Major Regulations issued since January 2008 that introduced new financial products**

Real Estate Investment Trusts : REITs

The major act for REITs in Thailand is, the Trust for Transactions in Capital Market Act B.E. 2550 followed by other relevant notifications such as;

- Notification of the Securities and Exchange Commission Gor.Ror. 14/2555: Rules for Becoming Settlor and Trustee of Real Estate Investment Trust
- Notification of the Office of the Securities and Exchange Commission SorKhor. 4/2553 and SorKhor. 8/2554: Particulars of Trust Instrument
- Notification of the Office of the Securities and Exchange Commission

SorChor. 28/2555: Reporting of Incidents of Real Estate Investment Trust After Offer for Sale of Securities

Infrastructure Fund: IFF

Securities and Exchange Act B.E.2535 is major act for the establishment of infrastructure fund in Thailand. Other notifications including;

- Notification No. Tho. Nor. 1/2554 regarding the criteria, conditions and procedures for the establishment and management of infrastructure funds
- Notification No. Thor. Nor.10/2554 regarding registration of infrastructure funds
- Notification No. Thor. Nor. 27/2554 regarding agreement between the unit holders and the fund management company
- Notification No. Kor. Nor. 1/2554 regarding borrowing restrictions for infrastructure funds
- Notification Sor. Nor. 31/2554 Rules, Conditions and Procedures for Appointment and Performance of Duty of Infrastructure Fund Manager
- Notification Sor. Nor. 34/2554 Details of Infrastructure funds scheme
- Approval for Investor Contact of Infrastructure Funds and Code of Conducts (2011)

• **Types of institutions that can issue those instruments**

Real Estate Investment Trusts : REITs

According to the Trust for Transactions in Capital Market Act B.E. 2550, the institutions that can issue REITs will be named "Settlor". A settlor shall be any of the following juristic persons:

- (1) Company issuing securities under the Securities and Exchange Act;
- (2) Originator under the Royal Enactment on Special Purpose Juristic Persons for Securitization;
- (3) Juristic person having the qualifications specified in the notification of the SEC.

Then, the settlor will be responsible for seeking approval from SEC for offering of trust units to investors. After offering, settlor then transfers or creates real right or any right relating to property to another person, called a trustee.

Infrastructure Fund: IFF

The SEC allows Infrastructure Fund in Thailand to be established in the form of closed-end funds, meaning that the establishment and issuance of fund units must be done by asset management companies. The fund investment units sold to the public must be listed on the SET.

• **Types of intermediaries/ investors that can trade/ invest in those instruments**

Real Estate Investment Trusts : REITs

There is no restriction on type of intermediaries that can trade REITs; therefore, in cases where a settlor wishes to be a unit holder of a REIT, the SEC's regulation stated that the settlor may hold units not exceeding the following proportion: (1) 50% of all issued units of the REIT, and (2) 50% of all issued units of each class of units, where the REIT has more than one class of units.

For Trustee, the regulation allow trustee to hold units as beneficiary of a REIT for which it is a trustee, not exceeding the following proportion: (1) 5% of all issued units of the REIT, and (2) 5% of all issued units of each class, where the REIT has more than one class of units.

Any person or persons in the same group is entitled to hold trust certificate not exceeding 50% of the total trust units sold.

Infrastructure Fund: IFF

Any person or persons in the same group is entitled to hold investment units not exceeding one-third of the total amount of the investment units sold, with an exemption for such entities as the Government Pension Fund and Social Security Fund. Foreign unit holding limit must be consistent with that prescribed by law governing infrastructure in which the fund invests.

II. SIZE OF THE MARKETS

- **Historical, annual statistics since 2008, about the size of the newly introduced financial products. Number of products, trading volume, number and size of issues (preferably in US\$).**

Real Estate Investment Trusts : REITs

The SEC had approved the regulations on establishment and management of Real Estate Investment Trust (REITs) in 2012, aiming to gradually convert the existing Property Fund to REITs (the existing property funds were allowed to raise funds and borrow for investment expansion until the end of 2013). However, the launch of REITs in Thailand was behind the schedule due to uncertainty over the tax structure for REITs. At the end of 2013, there were no REITs launched in Thai Market yet.

It is expected that more REITs will be launched this year, as the SEC insisted that they would not extend the deadline for establishment of property fund which was due on December 31, 2013. Also, the Revenue Department already approved scrapping the tax payment for asset transfers to REITs.

Infrastructure Fund: IFF

The regulation on establishment and management of infrastructure funds had become effective in 2011. As of 31 December 2013, there were 3 infrastructure funds established and listed in the SET as follows;

Fund name	Industry/Sector	IPO value	First trading date
TRUE Telecommunications Growth Infrastructure Fund	Technology/ Information & Communication Technology	THB 58,080 million (appx: USD 1,815 million) (Foreign limit 49%)	27 Dec.2013
Amata B. Grimm Power Plant Infrastructure Fund	Resource/ Energy & Utilities	THB 6,300 million (appx: USD 197 million) (Foreign limit 100%)	27 Sep.2013
BTS Rail Mass Transit Growth Infrastructure Fund	Services/ Transportation & Logistics	THB 62,510 million (appx: USD 1,953 million) (Foreign limit 49%)	19 Apr.2013

III. ISSUANCE

- **Conditions for issuers (issuer restrictions, capital restrictions, rating requirements, etc.)**

Real Estate Investment Trusts : REITs

REITs regulations are partially similar to those governing listed companies in the areas of issuance and offer for sale of securities, information disclosure and investor protection. Main conditions are as follows;

Offer REITs certificates via underwriter

> 250 Trust unit holders is required.

> 20% of the total issued certificate per tranche upon listing (and with not less than 15% per tranche to be maintained as free float thereafter.)

> Any person or persons in the same group is entitled to hold trust certificate not exceeding 50% of the total trust certificated sold.

Infrastructure Fund: IFF

(1) Infrastructure fund is a closed-end fund with the minimum size of THB2 billion (appx: USD62.5 million) (at least THB1 billion or appx. USD31.25 million per project, except for electricity type, only THB500 million or appx. USD15.62 million per project is required).

(2) Minimum 75% of the total assets must be invested in infrastructure asset within 6 months since the fund registration or capital raising.

(3) Infrastructure fund may invest in the following types of infrastructure:

rail transportation, toll way, electricity, water supply, airport, deep seaport, telecommunication and alternative energy.

However, the above mentioned infrastructure projects must be operated for the benefit of the Thai public, and must not provide services to any customers and/or group more than 1/3 of the total capacity.

(4) Maximum gearing ratio of 3 times.

(5) The fund shall distribute at least 90% of the net profit to the unit holders.

(6) Investment in a greenfield project is permissible on the following conditions.

if a greenfield project ≤ 30% of the total assets, the fund must have minimum 500 unit holders and be listed on the Stock Exchange of Thailand (the SET).

if a greenfield project > 30% of the total assets, the fund must have minimum 35 unit holders with a minimum subscription of THB10 million baht each, and must not be listed on the SET. However, once a greenfield project is completed and can generate income, the fund must be listed within 3 years.

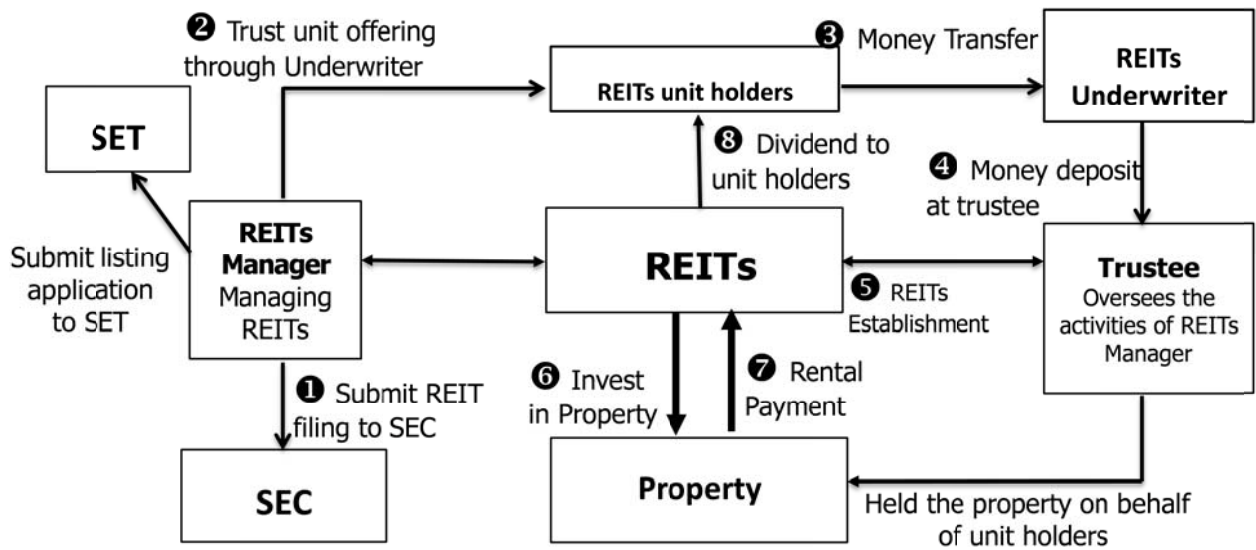
(7) The fund can invest directly in infrastructure project/ future cash flow or indirectly by holding shares of an infrastructure company for more than 75 percent of the outstanding shares of each company.

(8) Multi-tranche is allowed.

- **Summary of the issue process**

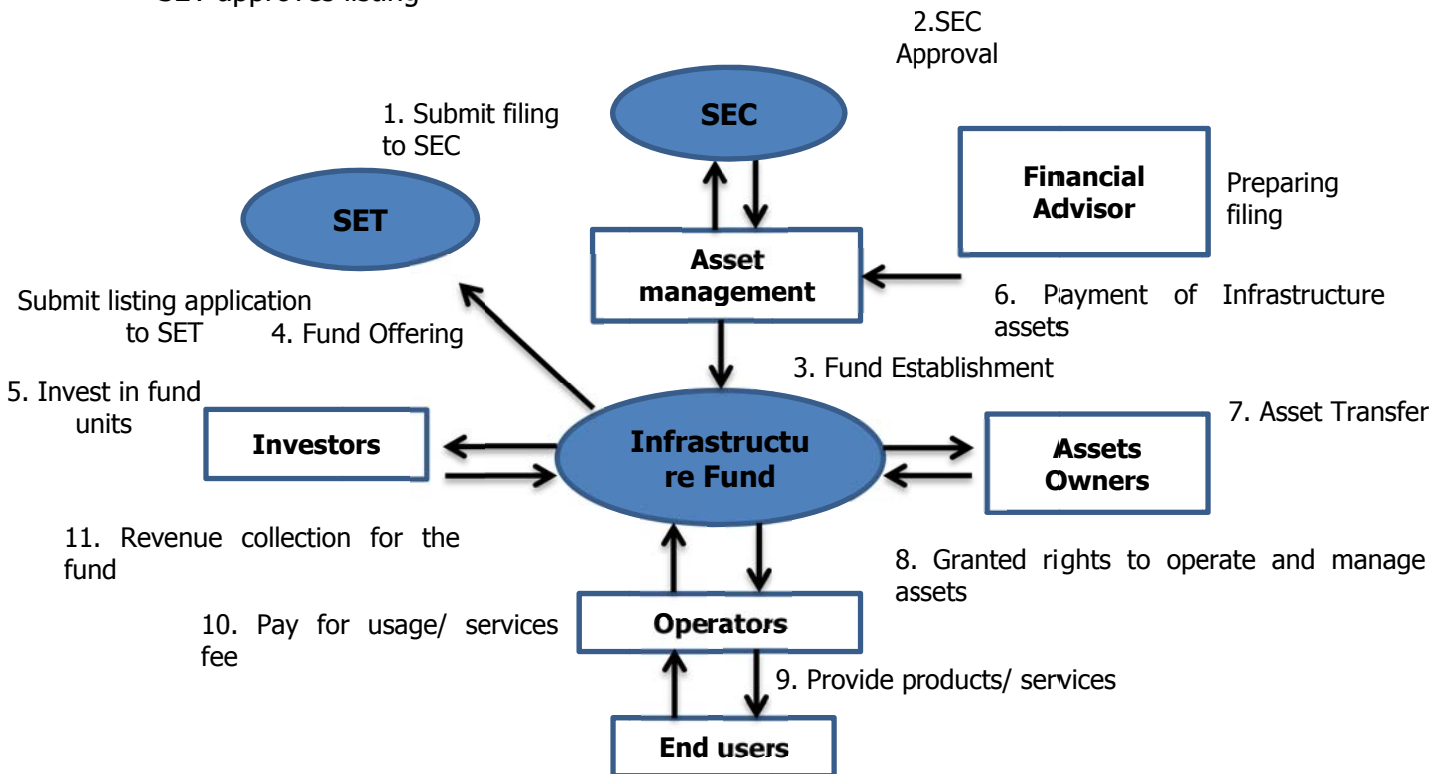
Real Estate Investment Trusts : REITs

- Submit REITs filing to SEC
- SEC approves REITs filing
- REITs manager appoint underwriter for trust unit offering to investors – subscription, money transfer and deposit at trustee
- REITs establishment – asset transfer – issuance of trust certificates to PEPO
- REITs manager submits application to list REITs on the SET
- SET approves REITs' listing



Infrastructure Fund: IFF

- Submit the prospectus together with the project detail (eg. Agreement for the acquisition of asset, Appraisal report)
- SEC approves the prospectus and related document
- Fund establishment
- Fund offering to investors – money transfer to funds - payment of infrastructure assets – asset transfer
- Submit the application to list the fund on the SET
- SET approves listing



IV. COSTS OF ISSUES

- **Mainly regulatory costs, such as fees paid to the regulator, exchanges or other authorities and institutions**

REITs & Infrastructure Fund		
SEC Fee	Application Fee	THB25,000 (appx: USD780)
	Registered Fee	0.001% of the initial size with max. of THB50,000 (appx: USD1,560)
Exchange Fee	Application Fee	THB30,000 (appx: USD940)
	Registered Fee	0.025% of total initial size with min. of THB50,000 (appx: USD1,560) and max. of THB100,000 (appxUSD:3,120)
	Annual Fee	0.025% of total size with min. of THB50,000 (appx: USD1,560) and max. of THB100,000 (appxUSD:3,120)

V. TRADING

- **Where does trading take place; exchanges or OTC**

SEC regulation stated that both of REITs and infrastructure funds must be listed on the exchange.

- **How are those new products traded? Market making or continuous trading?**

Those products are traded as continuous trading on the SET.

- **Who are investing in or trading in those products? Domestic retail, institutional or foreign investors?**

Mainly institutional investors, both local and foreign.

VI. SETTLEMENT AND CUSTODY

- **How are the transactions of those new instruments settled? Settlement dates. Settlement institutions etc.**

Investors must settle the transactions within 3 business days or T+3 through their brokers.

- **Is there a central counter party?**

There is one Central Counter Party namely, Thailand Clearing House Co., Ltd. or "TCH".

VII. DISCLOSURE REQUIREMENTS

- **What are the disclosure requirements for those new instruments?**

REITs & Infrastructure Fund
New Issuance requirement

Prospectus with the summary

Ongoing requirement

Annual report containing information on;

The asset value, the net asset value and the value of units

The financial statements and consolidated financial statement

The report on the progress of the project

The annual registration statement

Summary report

- **What are the point-of-sale disclosure requirements for those new instruments?**

Point of Sale requirement

Prospectus

The Executive Summary

VIII. RECOMMENDATIONS

For REITs, an effective tax benefit is a key driver for the success of REITs market in Thailand. The regulator needs to reconsider REITs' tax structure to ensure that Thai REITs are attractive to all relevant parties.

For Infrastructure funds, this instrument has many attractive investment characteristics, as well as supportive tax and regulatory frameworks. Size of infrastructure funds in Thailand is expected to grow rapidly in the future.

INTRODUCTION OF NEW FINANCIAL PRODUCTS IN TURKEY

This report focuses on the new financial products which are introduced in the capital markets of Turkey since 2008. These products are namely:

- Leveraged Transactions (i.e. Forex Trading)
- Warrants and Certificates
- Exchange Traded Options

I. REGULATORY FRAMEWORK

- **Main regulator for the new financial products**

The main regulator of the financial products in Turkey is the Capital Markets Board (CMB).

- **Major regulations**

Leveraged Transactions, (i.e. Forex) are subject to CMB's Communiqué Serial:V, No.:125 "Principles Regarding Leveraged Transactions and Institutions Which are Authorized to Provide Those Transactions".

Rules and regulations regarding warrants and certificates have recently been revised by the CMB's Communiqué dated 10/09/2013: "Communiqué Regarding Warrants and Investment Institution Certificates (VII-128.3)".

Options that are traded in Turkey are subject to CMB's Communiqué Serial:V, No.:51 "Communiqué On the Documents to be Prepared by the Intermediary Institutions and the Recording Requirements for the Intermediation of Derivative Instruments" and Communiqué Serial:V, No.:46 "Communiqué on Principles Regarding Intermediary Activities and Intermediary Institutions". They are also subject to Borsa Istanbul's Futures and Options Market Regulation.

- **Types of new instruments defined in the legislation**

Leveraged transactions on foreign currency, precious metals and energy products are defined in the legislation.

Warrants (company and covered) and Investment Institution Certificates (knock-out, barrier, turbo, discount, bonus and index) are defined in the relevant legislation.

Option products which are defined in the legislation are namely Single Stock Options and Equity Index Options.

- **Types of institutions that can issue those new financial products**

Unlike warrants and certificates, there is no issuance process for leveraged transactions. Only licensed brokerage firms can provide trading services for leveraged transactions. The license is granted by the CMB. The assets involving leveraged transactions, such as foreign exchange, commodities, precious metals are also determined by the CMB.

Companies listed on the Borsa Istanbul can issue company warrants. Domestic or foreign intermediary institutions can issue Investment Institution (covered) warrants and Investment Institution certificates. There can be more than one warrant and certificate issuer for the same underlying asset.

There is no issuance involved in Single Stock Options and Equity Index Options. Members of Borsa Istanbul are market makers, providing buy and sell quotations and execute transactions.

- **Types of intermediaries that can trade the new financial products**

In terms of leveraged transactions, brokerage firms can be market makers, white labels or introducing brokers. In Turkey, banks are not authorized to trade in the forex market.

In the warrants and certificates market, only brokerage firms are authorized to trade.

In the options market, banks and brokerage firms are authorized to trade. However there is an exception for equity options which cannot be traded by banks in Turkey.

II. THE MARKET SIZE OF THE NEW FINANCIAL PRODUCTS

- **Types of the new financial products**

Leveraged transactions (forex): Current FX trading in Turkey is done through following:

1. FX spots/spreads on foreign exchange currencies
2. FX spots/spreads on precious metals
3. FX spots/spreads on energy products

Warrants and Certificates: Covered warrants and Investment Institution certificates are traded on Borsa Istanbul. Equities (included in the ISE-30 index) and ISE-30 equity index are the underlying assets of covered warrants. Warrants can be either American or European style. Both call and put warrants are traded on the market. Warrants' maturity cannot be less than two months or more than five years. Types of certificates traded on Borsa Istanbul are knock-out, barrier, turbo, discount, bonus and index certificates.

Options: There are two types of option contracts traded on Borsa Istanbul Futures and Options Market (VIOP), Single Stock Options and Equity Index Options.

- **In which markets are the new financial products are traded?**

In Turkey, leveraged transactions are traded on the Over-the-Counter (OTC) market. They are regulated by CMB since 31 August 2011.

Warrants and certificates are being traded on Borsa Istanbul, since August 2010.

Company warrants are defined in the legislation, but there has not been any issue of company warrants yet.

Options in Turkey are traded on the Borsa Istanbul Futures and Options Market (VIOP). Since the merger of Turkish Derivatives Exchange (TURKDEX) and Borsa Istanbul Futures

and Options Market (VIOP) on August 5, 2013, all options contracts in Turkey are traded on a single platform under VIOP.

- **Historical, annual statistics of the last 5 years**

Leveraged (Forex) Trading: The leveraged trading market has been growing rapidly since August 2011.

Trading volumes in the forex market have increased drastically in the last three years. Leveraged trading volume has been recorded as US\$ 2,361 billion in 2012. This figure has doubled to US\$ 4,956 billion in 2013.

Leveraged (Forex) Trading Volume (bn. \$)		
2011*	2012	2013
333	2,361	4,956

Source: TSPAKB
* From 01/09/2011 to 31/12/2011

Warrants and Certificates: Covered warrants have been trading on Borsa Istanbul since August 2010, while certificates have only been trading since July 2012. As of end-2013, the number of listed warrants reached 328 with US\$ 5.1 billion trading volume.

Warrants and Certificates Market		
	No. Of Warrants & Certificates	Trading Volumes (mn. \$)
2010	22	734
2011	175	5,608
2012	331	6,032
2013	328	5,068

Source: Borsa Istanbul

Options: Option contracts have been traded on Borsa Istanbul Futures and Options Market (VIOP) since the end of 2012, thus there aren't sufficient data available in order to make year-to-year comparison. The total value of option contracts traded in 2013 reached US\$ 110 million, whereas the option premium value has been US\$ 3.5 million.

Options		
	Traded Value (mn. \$)	Option Premium Value (mn. \$)
2012*	2.3	0.1
2013	109.9	3.5

Source: Borsa Istanbul

III. ISSUANCE OF THE NEW FINANCIAL PRODUCTS

- **Conditions for issuers (issuer restrictions, capital restrictions, rating requirements etc.)?**

Leveraged Transactions: There is no issuance process involving leveraged transactions.

Warrants and Certificates: "Communiqué Regarding Warrants and Investment Institution Certificates (VII-128.3)" issued by the CMB enables warrants and investment institution certificates to be offered to public or to qualified investors only. Furthermore, an entity which is not a bank or brokerage firm but operates as an entity of a group of companies under which a bank or brokerage firm operates may also issue warrants and investment institution certificates.

Warrants and certificates can be issued by intermediary institutions. These institutions should have been assigned a long-term credit rating of the top-three ratings grade by a national or an international credit rating agency recognized by the CMB. If the intermediary institution does not meet the rating condition, it has to have its settlement obligations guaranteed by an intermediary institution which fulfils the rating criteria. The issuer and the guarantor shall be jointly responsible for fulfilling the settlement obligations. Sale period of warrants can be determined freely by the issuer.

Underlying instruments of the warrants and certificates can be the BIST indices, single equities or basket of equities which are included in the BIST 30 Index. Warrants' maturity cannot be less than two months or more than five years.

There is no issuance process involved in option contracts which are traded according to the principles of Borsa Istanbul Futures and Options Market (VIOP). Unlike warrants and securities, they are standardized contracts, the features of which are determined by VIOP.

- **Summary of the issue process.**

Warrants and Certificates: The issue process of Investment Institution warrants and certificates is as follows:

1. **Appoint a Market Maker**

The issuer should appoint a brokerage firm as a market maker.

2. **Registration with the CMB**

The issuers are required to submit their shareholder structure, articles of incorporation, last two years' financial statements, prospectus, circulars, etc. to the CMB during registration.

The applications may be carried out separately for each issue, or it may cover all issues to be made within a year.

3. **Listing on Borsa Istanbul**

After receiving registration certificate, the issuer applies to Borsa Istanbul to be listed.

IV. COSTS OF ISSUES

- **Are there problems with the costs of issuing the new financial products? Mainly regulatory costs, such as fees paid to the regulator, exchanges or other authorities and institutions**

Warrants and Certificates: Currently, these instruments are traded on the Warrants and Certificates Market of Borsa Istanbul. The initial listing fee for Investment Institution (covered) warrants is 0.01% of the total nominal value. Initial listing fee cannot exceed TL 1,000 (≈ US\$ 455). For each issuer, total listing fee cannot exceed TL 50,000 (≈ US\$ 22,650) in a year. There is no annual listing fee for warrants and certificates.

The registration fee to be paid to CMB is determined according to the maturity of the warrants:

- 0.05% of the nominal value with 180 days to maturity,
- 0.07% of the nominal value with maturities between 181 days and 1 year -including 1 year,
- 0.1% of the nominal value with maturities between 1 and 2 years-including 2 years,
- 0.2% of the nominal value with more than 2 years to maturity.

For custody services, the issuer should pay TL 20,000 (≈ US\$ 9,100) to Central Registry Agency as initial registration fee. The annual custody fee is 0.01% of the market value of the warrant or certificate.

V. TRADING

- **Where does trading take place; exchanges or OTC?**

Trading takes place in the OTC market, Borsa Istanbul and the related Futures and Options Market (VIOP).

Generally, banks and brokerage firms make option agreements in the OTC market.

Leveraged Transactions (Forex): In Turkey, forex trading is done in the OTC market through on-line trading platforms of the intermediaries which are licensed by the CMB.

Warrants and Certificates: On Borsa Istanbul, warrants and certificates are traded by market making system. The first session is held between 09:50-12:30 and the second session takes place between 14:20-17:30 hours.

Options: Option contracts are sold and bought on VIOP which is open from Monday to Friday. Trading is done in a single session, held between 9:10 and 17:40 (No transaction takes place between 12:30 and 13:55).

- **Is there market-making?**

Leveraged Transactions: For forex transactions, intermediary institutions can be market makers. A forex market maker can carry out leveraged transactions directly, accepting and executing orders by investors. Only brokerage firms can be market makers and they are required to hold the relevant licenses.

Warrants and Certificates: Each warrant or certificate has to have a market maker. After issuance, warrants and certificates need to be registered with CMB in order to be sold to qualified investors. During the application for CMB registration, a brokerage firm needs to be appointed by the issuer as the market maker.

Market makers should;

1. possess securities and derivatives intermediation license,
2. have a sufficient internal control system which is in line with the procedures and market conventions,
3. have submitted to CMB the special independent audit report regarding operations and compliance with the internal control systems, to be drawn up annually within the framework of CMB regulations

Brokerage firms, which meet the above requirements may also be the market maker of the warrants and certificates they issue. The principles regarding market making is determined by Borsa Istanbul and approved by CMB.

Options: With regards to options, market makers are institutions which fulfil the minimum membership requirements of Borsa Istanbul Futures and Options Market (VIOP). Trades can be executed on the Main Board, Negotiated Deals Board and on the Advertising Board in the Exchange. The Main Board is the main market where the orders are matched during the regular session and price fixing session. On the Negotiated Deals Board, the Exchange's approval is mandatory for both parties to trade. On the Advertising Board, traders indicate their interest in the negotiated trade. Once an advertising order is matched by the counterparty, it becomes a negotiated deal and executed on the Negotiated Deals Board.

Market making membership requirements:

- To have minimum of TL 10 million (≈US\$ 4,6 million) equity
- To provide trading volume and other criteria concerning transactions determined by the Exchange

- **Who are investing in or trading? Domestic retail, corporate, institutional or foreign investors.**

Leveraged Transactions: The Association of Capital Market Intermediary Institutions of Turkey (TSPAKB) publishes data on the structure of trading volumes in different markets. The figures are compiled from the brokerage firms only and exclude the transactions of the banks.

Investor Breakdown of Leveraged Transactions Trading Volume			
	2011*	2012	2013
Domestic Investors	100%	97%	95%
Dom. Individual	65%	52%	53%
Dom. Corporation	35%	45%	41%
Dom. Institutional	0%	0%	1%
Foreign Investors	0%	3%	5%
For. Individual	0%	0%	3%
For. Corporation	0%	3%	2%
For. Institutional	0%	0%	0%
Total	100%	100%	100%

Source: TSPAKB
* From 27/08/2011 to 31/12/2011

The share of foreign investors in the forex trading volume, which was 3% in 2012, increased to 5% in 2013. Domestic individual investors are the most active group in forex transactions. They generated 53% of the total trading volume in 2013.

Warrants and Certificates: Since 2010, domestic individuals and foreign corporations are the two major groups providing market liquidity. The transactions of foreign corporations reflect their market making activities.

Since 2010, domestic individuals and domestic corporations have generated around two thirds of the volume.

Investor Breakdown of Warrants and Securities Trading Volume				
	2010	2011	2012	2013
Domestic Investors	59%	58%	59%	64%
Dom. Individual	48%	43%	45%	47%
Dom. Corporation	11%	14%	13%	16%
Dom. Institutional	0%	0%	1%	0%
Foreign Investors	41%	42%	41%	36%
For. Individual	0%	0%	0%	0%
For. Corporation	41%	42%	41%	36%
For. Institutional	0%	0%	0%	0%
Total	100%	100%	100%	100%

Source: TSPAKB

VI. CLEARING AND SETTLEMENT

- **Is there a CCP?**

Leveraged Transactions: There is no CCP for forex transactions. Istanbul Stock Exchange Settlement and Custody Bank Inc. (Takasbank) is used for depositing margin amounts by the investors.

Warrants and Certificates: There is no CCP for warrants and certificates. Takasbank is used for the settlement of trades on Borsa Istanbul.

Options: Clearing of the trades executed on VIOP is performed by Takasbank which is the central counterparty.

- **Collateral requirements**

Leveraged Transactions: For forex transactions, the full amount of the leverage used by the investor must be collateralized in cash, in Turkish Lira or a convertible currency.

The parties of a forex transaction may determine a leverage ratio which cannot exceed 100:1. This actually means that the investor is required to deposit at least 1% of the total transaction amount. For instance, in order to trade USD 100,000, the required margin would be at least USD 1,000.

The legislation requires that all the margins deposited by investors must be kept at Takasbank.

- **Settlement process of the new financial products (cash settlement and physical delivery).**

Leveraged Transactions: Settlement procedures and valuation of trades in the OTC market are determined between parties.

Warrants and Certificates: "Settlement" means the exchange of the warrants traded on Borsa Istanbul. "Conversion" refers to the transactions which are executed as a result of the exercise of the warrant upon its expiration. On the expiration of a warrant, a cash settlement takes place and the issuer transfers funds to the warrant holder's account.

Settlement is handled by Takasbank. The settlement principles are the same as in the Borsa Istanbul Equity Market. Settlement for warrants is realized on T+2 through delivery-versus-payment (DVP) system.

At the end of each trading day, Borsa Istanbul transmits details of all transactions to Takasbank. Takasbank multilaterally nets the settlement positions, determines the obligations of each broker in each security, and calculates their net cash position.

Options: Takasbank settles trades realized on the Borsa Istanbul Futures and Options Market (VIOP).

The settlement method for single stock option contracts is physical delivery. For single stock options, physical delivery is done by Borsa Istanbul. The settlement method for index options is cash settlement.

VII. DISCLOSURE REQUIREMENTS

- **What are the disclosure requirements for new financial products?**

Leveraged Transactions: Licensed intermediaries must have a separate section on their websites for leveraged transactions. This section must include:

- Information on the licenses held,
- General information about the main institution if the brokerage firm is White Label or Introducing Broker
- Potential risks of leveraged trading
- Information about the platforms used for the transactions, safety precautions, alternative communication methods, order execution processes and protection of personal information

Options: For market membership the following must be submitted by the institutions:

- Derivatives License issued by CMB
- Letter of Undertaking for Electronic Report Distribution
- A letter of undertaking from the general clearing member that guarantees the clearing of non-clearing members
- Market Maker Commitment Letter

The disclosure requirements for warrants and certificates are described as below.

Warrants and Certificates: In the offering prospectus, financial status of the issuer and the guarantor, the results and scope of their activities, principles governing guarantee, risks and attributes of issued warrants/certificates and the principles of sale should be disclosed.

Moreover, settlement type and issue, and all other important information which may affect the decisions of investors should be defined in detail.

After warrants/certificates are listed on Borsa Istanbul, the issuer should disclose changes in terms and conditions which may have a potential impact on the price of the warrants and certificates.

- **What are the point-of-sale disclosure requirements for intermediaries?**

Warrants and Certificates: The intermediary institutions have to have the "risk notification form for warrants" read and signed by their clients before they start trading. This form explains the working principles, rights and obligations of warrants/certificates and the risks of such transactions. The content of this statement is determined by the Association of Capital Market Intermediary Institutions of Turkey (TSPAKB). The institutions should provide this notification form to customers.

VIII. RATINGS

- **Are there rating requirements for issuers or products?**

The issuer of Investment Institution (covered) warrants or certificates must have a long-term rating of at least A, assigned by a national or an international credit rating agency recognized by the CMB.

- **Are there rating requirements for investor groups (institutional, individual) that can invest in the new financial products?**

There is no rating requirement for institutions trading leveraged transactions and options.

IX. OTHER ISSUES

- **Are there any restrictions for individual investors to invest in the new financial products?**

There is no restriction to trade forex, warrants, certificates or options for individual investors.

X. ROLE OF SROs

- **Are SROs involved in any aspect of the markets of those new products, such as regulating the OTC trading, disclosure requirements, data publication, etc.?**

Warrants and Certificates: As the SRO, TSPAKB has formed the content of the “risk notification form for Investment Institution warrants and certificates”. This form explains the working principles, rights and obligations of warrants and the risks of such transactions. Investors should read and sign this form before they start trading these products.

XI. RECOMMENDATIONS

- **Recommendations for the development of markets for new financial products in your jurisdiction, including proper management of the risks in the market.**

Leveraged (Forex) trading involves high risks; with the potential for high return on investment. Since forex trading is new in Turkey, there is definitely a need for more and effective forex education for individual investors before they start trading.

Another issue is the low range of available derivatives products in the OTC and regulated markets. In terms of equity option products, there are two products available in the market. This range could be extended to cover similar products, such as Equity Index Swaps, Equity Swaps, Equity Basket Swaps and Equity Basket Options etc.

Additionally, taxation can be asymmetric among products. For instance, withholding tax rate is 0% for instruments based on equities and equity indices, whereas it can go up to 10% for other products.

References:

Capital Markets Board: www.cmb.gov.tr

Borsa Istanbul: www.borsaistanbul.com

Central Registry Agency: www.mkk.com.tr

Takasbank (Settlement & Custody Bank): www.takasbank.com.tr