

# CAREC Capital Market Regulators Forum

29–30 AUGUST 2019



## Summary Brochure



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# Executive Summary

Capital market regulators from members of the Central Asia Regional Economic Cooperation (CAREC) program met for the first time as a group on 29–30 August 2019 in Islamabad, Pakistan, to discuss regional cooperation for development of their capital markets, enhancing access to finance, and supporting private sector development.

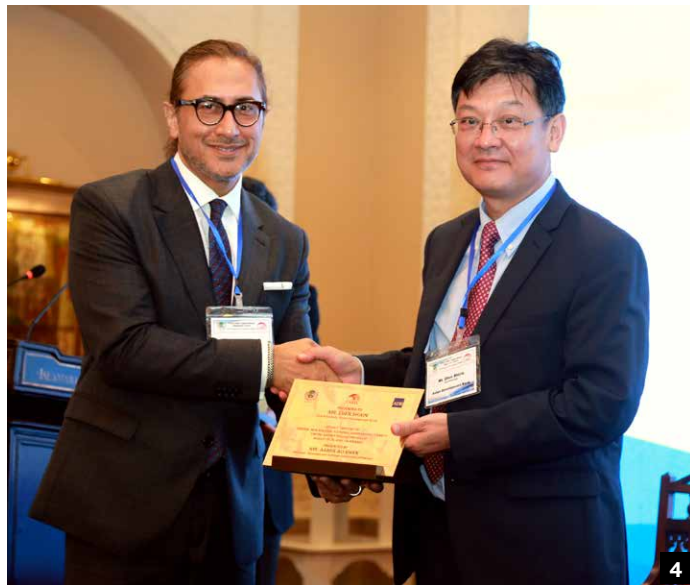
Jointly organized by the Securities and Exchange Commission of Pakistan (SECP), the Asian Development Bank (ADB), Central Depository of Pakistan (CDC), and the National Clearing Company of Pakistan Limited (NCCPL), the Forum attracted high-level officials, including

- Pakistan’s Adviser on Finance Dr. Abdul Hafeez Shaikh;
- Pakistan’s Minister for Economic Affairs Mr. Hammad Azhar;
- ADB Vice-President Mr. Shixin Chen;
- SECP Chairman Mr. Aamir Ali Khan;and
- more than 150 delegates from private and public sector institutions from 11 CAREC countries.



The forum brought out a strong desire for closer cooperation between regulators and actors of capital markets. CAREC regulators are interested in learning from more advanced countries for the development of capital markets and from other regions regarding closer cooperation and integration of markets—for example through fintech solutions.

Since its inception in 2001, CAREC Program has invested heavily in improving regional connectivity, promoting energy trade, and facilitating regional trade, with a total financing of almost \$34 billion. In 2017, a new long-term strategy—CAREC 2030—was adopted by the 11 countries. This strategy expands the objective of the program to strengthen economic and financial stability, including through promoting cooperation among capital markets and strengthening the investment climate in Central Asia.



## Opening Speeches

“Capital markets can play a key role in financing economic growth through facilitating trade and investment flows,” said Dr. Hafeez Shaikh. “As economies develop and investment projects become larger and more complex, efficient resource allocation and risk-sharing are facilitated by the development of capital markets.”

“This forum underscores the need to build strong and meaningful cooperation among our capital markets,” said Mr. Chen. “The region needs much more

financing and investments than public sector resources can alone provide. Mobilization of private sector funds, including through capital markets and long-term institutional resources, is critical to meeting development financing gaps of the CAREC region.”

“We have all witnessed how enhanced regional integration can work to the advantage of those who collaborate; it is time to jointly work for building synergies and pooling resources to achieve a shared success.” said Mr. Khan

1. Advisor to PM on Finance & Revenue Dr. Abdul Hafeez Shaikh delivers speech as Chief Guest at the inaugural session
2. ADB Vice President Mr. Shixin Chen welcomes participants
3. Chairman SECP Mr. Aamir Khan addresses the forum
4. SECP Chairman delivers certificate to ADB Vice President



SESSION  
01

# Country Case Studies: Towards a Reform Agenda



1. SECP Commissioner Mr. Shauzab Ali presented Pakistan's case study
2. Plenum engaging with panelists
3. Vice Dean of the China Institute of Finance and Capital Markets Mr. Xianfeng Ma presents experiences and reforms from People's Republic of China
4. Ms. Anar Orkashbayeva, Head of Financial Sector Development Policy Division in the Ministry of National Economy of the Republic of Kazakhstan participate in the panel discussion
5. Mr. Myktybek Abirov, Deputy Chairman of State Service on Regulation and Supervision of Financial Market of the Kyrgyz Republic during the panel discussions
6. Plenum discussions among CAREC member country representatives

## Session Summary

The financial sector in most CAREC countries remains dominated by traditional financial institutions such as banks. Capital markets in the region are also lagging, with some CAREC members ranked low in market capitalization, according to the 2018 Global Competitiveness Report. Improved capital markets can unlock much-needed resources to boost economic growth and help achieve sustainable development, while strengthening regional cooperation can promote more effective and efficient cross-border trade and investments.

SECP Commissioner Mr. Shauzab Ali presented Pakistan's capital market reform progress. Various legal and regulatory reforms were highlighted, including for enabling Islamic finance products. The Pakistan Stock Exchange has entered a strategic partnership with a Chinese consortium consisting of China Financial Futures Exchange,

Shanghai Stock Exchange, and others, which now holds a 40% share in the Pakistan Stock Exchange. Mr. Shauzab recognized that the harmonization of capital markets in the CAREC region is a crucial step towards integration to create larger, and more competitive capital markets.

Vice Dean of the China Institute of Finance and Capital Markets, Mr. Xianfeng Ma, shared recent capital market reforms in China, with particular focus on international cooperation programs of Chinese stock markets. He provided examples of the Mainland-Hong Kong Stock Connect initiative, the Shanghai-London Stock Connect program, and the China-Japan ETF Connectivity Scheme. In addition, regional integration of bond markets is being pursued such as the Bond Connect program between Mainland China and Hong Kong.

*Improved capital markets can unlock much-needed resources to boost economic growth and help achieve sustainable development*



## Panel Discussion Take-Aways

A panel discussion took place on capital market development and ongoing reforms in several CAREC member countries. Reforms discussed included Islamic finance products like sukuk, the establishment of a price discovery agency for bond markets to strengthen the yield curve development, and measures to increase the liquidity of the bond market.

A representative of the Government of Kazakhstan shared the experience of

establishing the Astana International Financial Center (AIFC), which allows transactions under British common law. AIFC is cooperating with NASDAQ to develop the international financial center and cross-listings of stocks.

The panel also identified risks of cooperation between capital markets like the spillover of market disturbances and investors exploiting disparities in legislation through cross country operations.

## Conclusion

The discussants identified the following next steps for CAREC Capital Market Regulators:

- ✓ Expanding the geographical and business scope of capital markets connectivity
- ✓ Strengthening regulatory cooperation on capital market connectivity
- ✓ Initiation of a special program for information exchange
- ✓ Harmonization through setting basic standards among CAREC countries
- ✓ Formulation of common policy on addressing movement of capital



SESSION  
02

# Learning from Capital Markets Integration Experiences



1. Ms. Azryta Aziz, General Manager of the Securities Commission Malaysia shared ASEAN experiences of regional integration of Capital Markets
2. Panelists discussing capital markets integration
3. Mr. Imran Inayat Butt sharing experiences of cooperation between South Asian capital markets

## Conclusion

To establish a vibrant and relevant CAREC capital market forum, the key lessons from other regions are:

- ✓ Strong high-level government support and leadership is crucial
- ✓ Financial support needs to be attracted for promotional and educational initiatives
- ✓ The structure of a regional capital market regulators forum has to reflect the diversity in capital market development stages in the different member countries
- ✓ Private sector participation and buy-in is crucial to ensure commercial viability of a regional capital market regulators forum
- ✓ Market development initiatives based on regional priorities for capacity development should be pursued

## Session Summary

To learn from other regions’ experiences in cooperation and integration of capital markets, representatives of the Association of Southeast Asian Nations (ASEAN) and the Capital Market Regulators Forum of the Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (COMCEC) shared experiences of capital markets’ cooperation and integration.

ASEAN has a long history of regional economic integration including through the ASEAN Capital Markets Forum (ACMF), which was established in 2004. ACMF follows multiple initiatives, carefully considering the various stages of capital market development of its members. Harmonization initiatives target cross-border offering of funds, multi-jurisdiction offerings of equity and debt, corporate governance and sustainable financing, and movement of market professionals.

### Challenges to regional collaborative efforts



The COMCEC Capital Market Regulator’s Forum, which includes also eight CAREC member countries (Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Pakistan, Uzbekistan, Tajikistan, and Turkmenistan) was established in 2009. The Forum is structured along four task forces on market development, Islamic finance, financial literacy, and capacity building.

## Panel Discussion Take-Aways

Panelists recognized the successful capital market regulators fora in other regions that also feature diverse countries in different stages of capital market development. Cooperation between regulators can facilitate capital market integration in the future to enable more liquid stock and bond markets, which is a common challenge among most CAREC countries. Especially small countries find it a

*Sharing research and lessons learned among CAREC countries can facilitate reforms for higher investment levels*

challenge to attract investors and develop derivatives markets where investors can hedge risks.

Panelists found that coordination and cooperation can accelerate capital markets development and increase the liquidity. Sharing research and lessons learned among CAREC countries can facilitate reforms for higher investment levels.

SESSION  
03

Derivatives Market  
Development

Session Summary

The Forum featured two dedicated sessions for public-private dialogue on derivatives market development and FinTech that can facilitate capital market reforms and regional cooperation. In most CAREC countries, derivatives markets are at initial stages of evolution but given their importance for the financial sectors, capital market regulators and private sector leaders are working together to create conditions for their development.

The Pakistan Mercantile Exchange Limited (PMEX) shared their experiences on growing of commodity markets and impacts of regionalization. The prime objective is to provide an efficient and transparent trading platform for local commodities thereby catering to domestic as well as global customers.

Mr. You Hang, Director of the International Development Department of the China Financial Futures Exchange shared that in China, future products are opening up and instruments are improving. Index future trading is

Overview of CAREC Derivative Market

		CAREC COUNTRIES										
Category	Sub-category	PRC	PAK	KAZ	GEO	TKM	KRZ	UZB	MON	AFG	AZB	TAJ
Cash Markets	FX Spot	✓	✓	✓	✓	✓	✓	✗		✓	✓	
	Govt. Securities	✓	✓	✓	✓	✓	✓	✓		✓	✓	
	Corporate Debt	✓	✓	✓	✓	✗	✗	✓		✗	✓	
	Debt Repo	✓	✓	✓	✓	✗	✗	✗		✗	✓	
OTC Derivatives	FX forwards	✓	✓	✓	✓	✗	✗	✗		✗	✓	
	Cross Country Swaps (CCS)	✓	✓	✗	✗	✗	✗	✗		✗	✓	
	Interest Rate Swaps (IRS)	✓	✓	✗	✗	✗	✗	✗		✗	✓	
	FX Option (FXO)	✓	✗	✗	✗	✗	✗	✗		✗	✓	
Exchange Traded Derivatives (Futures)	Equity Derivatives (EQD)	✓	✗	✓	✗	✗	✗	✗		✗	✗	
	Equity	✓	✓	✓	✗	✗	✗	✗		✗	✗	
	FX	✓	✗	✓	✗	✗	✗	✗		✗	✗	
	Interest Rates	✓	✗	✗	✗	✗	✗	✗		✗	✗	
	Energy Metals	✓	✓	✗	✗	✗	✗	✗		✗	✗	
	Agri	✓	✓	✗	✗	✗	✗	✗		✗	✗	

What are Derivatives?

**Derivation from underlying asset class:** As the name implies, these are financial products that are derived from the value of an underlying asset, mainly:

- FX
- Fixed Income
- Interest Rates
- Equities
- Commodities
- Credit

**Type by Platform:** Exchange traded or Over The Counter (OTC)

**Type by Product:** Fundamentally four types:

Forwards

Futures

Options

Swaps

**Hedging:** They are most commonly used to hedge the value of the underlying liability from rising or of the underlying asset from eroding in volatile markets

**Yield-Enhancing:** Used to create leveraged, yield-enhancing assets to optimize risk/return requirements of various classes of investors

**Cost Reductions:** Used to reduce borrowing costs—embedded option structures

**Wide Range:** The derivatives market has grown to encompass pretty much all asset classes in the world—we even have a vibrant Weather Derivatives Market

**Leverage Effect:** The risk is that since derivatives are based on the value of an underlying assets, a significant downward move in asset value can cause a sharper change in the value of the related derivative.

**Competent Regulation:** Derivative markets must be competently regulated otherwise they can pose significant systemic risks.

allowed for hedging purposes. China is now preparing for overseas investors to participate in the domestic derivatives market.

Mr. Amin Saleh, Head of the International Bond and Derivative Unit of Alafalah Bank Pakistan elaborated on current challenges for the derivative market in Pakistan, including absence of arbitrageurs in the market, lack of liquidity providers, and lack of equity securities market turnover.

Discussion  
Take-Aways

The discussion evolved around the conditions for developing derivatives markets further in CAREC countries and their possible function of hedging currency risks. The speakers shared that developing interest rate derivative markets require liquid markets for metals and currencies for hedging and other markets need to be developed to cross-hedge.

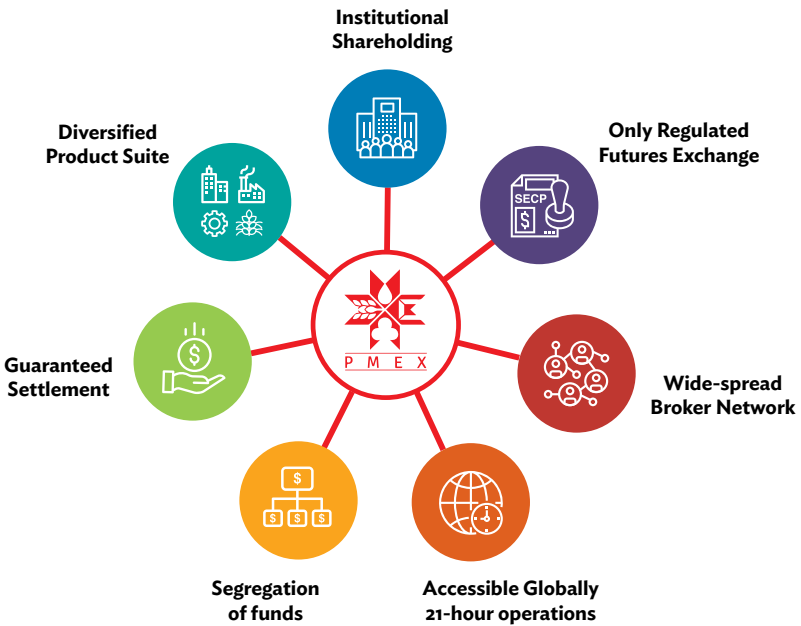


Mr. You Hang, Director of the International Development Department of the China Financial Futures Exchange, delivering a statement on derivatives market development



Mr. Salahuddin Manzoor, Director, Pakistan Stock Exchange moderating session on regional integration of derivatives markets

PMEX at a Glance



Conclusion

PMEX is working on two regional initiatives for the integration of the commodity market:

- Development of a global trading platform for Pakistani commodities through a one-window solution
- Cross-listing of local commodities with regional exchanges

PMEX presented advantages of a regional trading platform with participation of all CAREC member countries. Advantages would be reduced reliance on middle-men, creating value-added in the region, foreign exchange savings due to netting, value-creation on the basis of comparative advantages in the region and economies of scale in clearing.



SESSION  
04

# FinTech—Regulatory and Regional Implications

## Session Summary

Fintech innovations are complementing the stock markets and would continue to create a transparent and efficient system that would significantly help increase the number of traders and volume of trade.

Technology advancements and the applications of new concepts like internet of things, bring more transparency for the investors to track warehouses, goods movement, and stocks.

Fintech innovations need to be facilitated by regulators. Pilot programs like “sandboxes” are a useful tool to develop fintech solutions and accompanying regulations in parallel. The State Bank of Pakistan is currently developing a fintech regulatory sandbox.



Source: McKinsey Panorama Fintech database

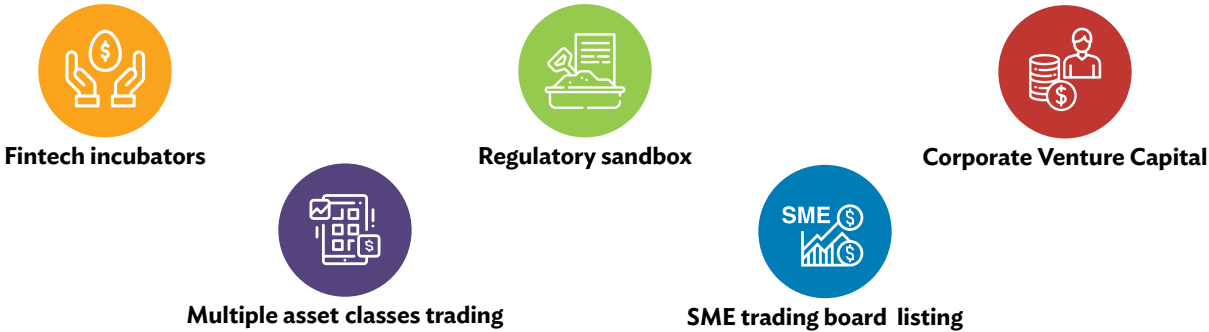


Mr. Nadeem Hussain, Chairman and Founder of Planet N Group, gives an overview on Fintech and moderates the session



Mr. Yussuf Hussain, CEO of Ignite, discusses Fintech innovation and its challenges, next to Mr. Omer Ghani, CEO of Trioca Ventures

### Recommendations



## Discussion Take-Aways

For small- and medium-sized companies, fintech solutions have a great potential to provide initial financing and support expansions. But regulations would need to facilitate a liquid secondary market facility to support this development, for example, a crowd funding platform for institutional investors.

Investments in smaller companies, for example as angel investors, often face the challenge of selling options since the market is small and information is distributed asymmetrically. Regulations need to be developed for easy entry and exit for investors in start-ups.

*Regulations need to be developed for easy entry and exit for investors in start-ups.*

For firms providing financial services, regulations were seen as too cautious and capital requirements as too high for opening up the market for smaller and more innovative non bank entities.

## Conclusions:

- ✓ Fintech innovations are driving innovations in capital markets by providing platforms for transparent and efficient trading and boost the number of traders and turnover volumes.
- ✓ Crowdfunding platforms are providing alternatives to raise capital, especially for smaller companies and startups.



SESSION  
05

# Shared Challenges for Debt Markets

## Session Summary

As most CAREC countries are in the initial stages of capital market development and the banking sector is still dominating financial sector assets, debt market development helps deepen the financial system, establish a long-run yield curve, and improve funding opportunities.

A representative of the National Bank of Georgia presented recent debt market developments in Georgia. Further development of equity and debt securities markets are a major goal of ongoing reforms. The corporate bond market is still small, with only 1% of GDP equivalent and liquidity of the domestic sovereign bond market increasing, but still at a low level. A comprehensive pension reform is being undertaken, which is anticipated to contribute to the growth of securities market. Other reforms to stimulate debt markets are tax exemptions for listed securities, strengthening of regulatory framework, introduction of investment

fund and covered bonds legislation and improvements of technical infrastructure, including automated central securities depository system for government and corporate securities.



Ms. Salome Skhirtladze, Head of Capital Market Department in the National Bank of Georgia presents Georgian reform experiences to stimulate debt market development



1. Panelists discussing debt market development
2. Mr. Yongdong Pan, Director of the Division of Statistics, Department of Market Supervision in the China Securities Regulatory Commission discussing debt market reforms
3. Mr. Arslan Nepesov, Head of the Licensing and Supervision of Licensing Activities Division in the Ministry of Finance and Economy of Turkmenistan, sharing experiences of debt market reforms in Turkmenistan



## Panel Discussion Take-Aways

During the panel discussion, other CAREC member countries shared their recent reform initiatives to further develop markets for corporate and public debt.

Panelists shared that bond market development is a priority of many financial market regulators. In resource rich countries, oil, gas, and mining companies are dominating corporate bonds issuances. A problem identified is that corporate bond markets are competing with bank financing. Most smaller companies prefer bank financing since they may not have the required level of transparency to enter bond markets. Many CAREC governments have issued Euro bonds and local

currency bonds. To stimulate liquidity in government bond markets, some regulators are working on reforms to allow foreigners to participate in bond markets and issue municipal and mortgage bonds with foreign participation.

A panelist from the People’s Republic of China shared that China’s bond markets are sizable and very liquid, and apart from institutional investors, even individuals are participating in these markets. The corporate bond market regulation is very accommodative. Even for small companies, it is possible to issue bonds. This results in a diversified market. The regional cooperation initiatives for bonds, like “bond connect,” further boosts liquidity in bond markets.

## Conclusion

The development of vibrant pension and life insurance systems were identified as main reform goals to diversify participation in the bond market on the supply side. On the demand side, banks are sometimes competing with non-bank driven markets, for example in some cases, larger corporates would prefer bond markets to bank financing. This would need to be carefully balanced through regulation. Reforms have to be targeted to bring demand and supply—potential bond issuers and investors—together.

CAREC countries agreed to expedite bond market development and learning from other CAREC member countries’ experiences. Panelists considered important that the development of cross-border linkages and the development of standards can be applied in the region to increase liquidity of debt markets.



SESSION  
06

# Capital Market Integration in CAREC: Issues and Prospects

## Session Summary

A panel session discussed capital market cooperation in the region and possible next steps towards integration. Benefits and risks were identified and the importance of CAREC capital market regulators working together and learning from each other was highlighted.

Integrated capital markets can help in financial and economic crisis, as panelists noted, but connectedness of markets is also associated with risks of contagion effects of local crises. Keeping this and the significant diversity of capital markets in the CAREC region in mind, discussants agreed to start with small initial steps towards regional cooperation, with developing standards and regulations, while learning from other regions' experiences.

Some cooperation activities between stock markets are already in place in the CAREC regions. The Chinese exchanges hold shares in the Pakistan stock exchange and the Astana International



Financial Center. In turn, the Kazakhstan stock exchange has a strategic stake in the Kyrgyz stock exchange. These bilateral linkages help information exchange, promote harmonization of regulations, and can be guiding first steps of cooperation, moving eventually towards cross-listings and information exchanges on investors and companies.

The session concluded that it was stated that high-level political ownership and support is required to overcome barriers and work together effectively towards closer cooperation of capital markets.



1. Ms. Mengyao Lei of the Department of Futures Supervision in the China Securities Regulatory Commission during the panel discussion
2. Mr. Wali, Director of Budget Execution in Ministry of Finance of Afghanistan, during the panel discussion



## Conclusion and Next Steps

The CAREC region faces a huge financing gap for infrastructure development. Private sector financing is necessary to cover the gap, but currently capital markets development is a bottleneck to raising significant private investments for large projects, which are currently being implemented in the region, through CAREC, China's belt and road initiative, and other regional cooperation platforms. Private equity and venture capital could be a first step to pilot regional cooperation between capital markets. Private equity could be applied to more traditional business to bring not only capital but also knowledge in terms of management support. ADB and other international financial institutions can act as honest brokers to bring the parties together and start the dialogue on starting

cooperation between capital markets to drive the development of private equity.

Establishing the capital market regulators forum as a regular event was welcomed by all participants. The main purpose of such a forum would be to i) develop knowledge, build capacities, and exchange experience for product and process innovation; ii) pilot initiatives for regulatory and legal harmonization; and iii) ultimately support market integration through cross-listings, standard setting and recognition. To make progress on these fronts, Pakistan Minister for Economic Affairs at the forum had suggested CAREC countries can consider formalizing the forum as a regular and rotating event with relevant task forces and private sector participation through an agreed



1. Panelists discussing the way forward during the concluding session of the forum
2. Mr. Hammad Azhar, Minister of the Economic Affairs Division in Pakistan (Guest of Honor) delivering closing remarks

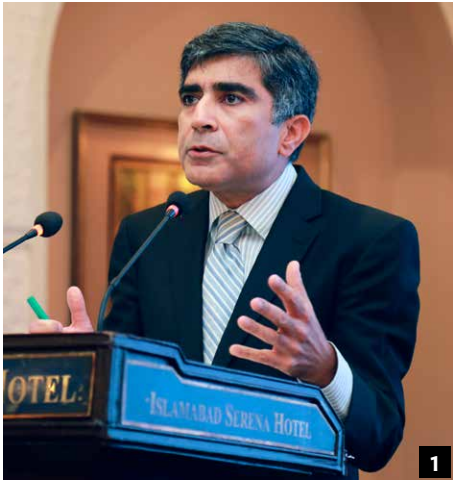


memorandum of understanding among all CAREC countries.

“We are committed to develop the Capital Markets of this region in line with international best practices and integration of regional markets. I believe that vibrant and efficient capital markets are important for resource mobilization and supporting the economic development of this region.” —said Mr. Hammad Azhar, Minister of the Economic Affairs Division, Pakistan. “For us, regional cooperation and integration is one of the priority areas in line with CAREC’s 2030 Strategy to achieve greater regional connectivity and supporting businesses across borders. I consider regional cooperation as the center point, which provides connectivity to all other areas, and nothing is possible without cooperation.”

As a next step, the CAREC secretariat will support SECP in finalizing the draft MoU to establish a regular CAREC Capital Market Regulators Forum.

The CAREC secretariat, together with CAREC capital market regulators, can conduct initial research regarding comparative analysis of capital market development in CAREC and assess regulatory changes required to support pilot cooperation initiatives among CAREC capital markets.



1. ADB's Mr. Parvez summarizing the key take-aways during the closing session



2. Minister of Economic Affairs Mr. Azhar, Chairman SECP Mr. Khan, Director ADB Mr. Parvez, and Additional Secretary of Economic Affairs Mr. Orakzai during the closing session

3. Senior guests and country delegates after the closing session



# How should the CAREC Capital Markets Forum proceed?



**Develop knowledge, build capacities, and exchange experience for product and process innovation**



**Establish the Forum as a regular and rotating event with relevant task forces and private sector participation**



**Pilot initiatives for regulatory and legal harmonization**



**Support market integration through cross-listings, standard setting and recognition**



# CAREC Capital Market Regulators Forum

29–30 AUGUST 2019

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## Summary Brochure

### **About the Central Asia Regional Economic Cooperation Program**

The CAREC Program is a partnership of 11 countries—Afghanistan, Azerbaijan, the People's Republic of China, Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan—to promote economic growth and development through regional cooperation and supported by development partners. ADB hosts the CAREC Secretariat at its headquarters in Manila.

