



ISTANBUL STOCK EXCHANGE

**Areas of Cooperation Among Stock Exchanges
of OIC Countries**

by

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Istanbul, March 28-29, 2005

AREAS OF COOPERATION

- Certification or Endorsement of Securities convenient for OIC Member Countries
- Cross Border Listings
- Cross Membership
- Creation of Indices
- Cooperation with Existing Federations
- Training and Technical Cooperation

Certification or Endorsement of Securities

- Common definition of a set of criteria can be agreed upon by the regulators to identify capital market products convenient for OIC Member Countries and,
- Centrally or locally develop an official certification or endorsement mechanism to encourage the listing of such investment vehicles on the stock exchanges of OIC Member Countries

Cross Border Listings

- Cross Listing

Initiated by an agreement between participating stock exchanges on a correspondence basis.

- Dual Listings

Company initiated listings usually in one of the highly developed capital markets in addition to the local listing.

- Multiple Listings

Listing in a number jurisdictions usually initiated under a program such as Regulation-S.

Cross Listing

- Definition

Cross listing is admission for listing/trading of securities, which are already listed on a local stock exchange, on foreign stock exchanges and become subject to their rules and regulations.

Cross Listing

- Issues of cooperation for Stock Exchanges
- Establishment of principles for issues such as criteria of shares subject to cross listing, trading principles etc.)
- Company disclosures; dissemination of information by means of data vendors and/or internet (market statistics, price sensitive info., i.e corporate actions etc.)

Cross Listing

Cooperation, coordination and communication among the regulatory authorities to jointly develop;

- Rules for cross listing the original shares, depository certificates and mutual funds,
- Principles of disclosure requirements related to the shares of companies operating in the region subject to cross listing,
- Accounting, independent auditing and financial reporting standards (preparation and disclosure of financial tables of companies, which are subject to cross listing, in compliance with “IAS”)

Cross Listing

Cooperation, coordination and communication among the regulatory authorities to jointly develop rules to deal with;

- conflicts and disciplinary issues, (disputes between issuers and investors, stock exchanges and issuers),
- Insider trading and manipulations,
- Protection of investor rights pertaining to shares subject to cross listing,

Cross Listing

Examples-1

- *Hong Kong*

Under the pilot program introduced in May 2000, a number of global securities listed on the Nasdaq and the Amex have been admitted to trading on the Hong Kong stock market.

- *Tel-Aviv Dual Listing*

The dual-listing law enables companies that are traded on U.S. markets to dual-list on the TASE with no additional regulatory requirements.

Cross Listing

Examples-2

— Cross Listing Agreements between the Stock Exchanges of:

- Kuwait and Jordan in 1999
- Bahrain and Egypt C.M.A. in 1997
- Kuwait and Egypt in 1996
- Bahrain and Amman in 1996
- Bahrain, Kuwait and Muscat in 1996
- Bahrain and Muscat in 1995

Cross Listing

Examples-3

- The Singapore and Australian Stock Exchanges agreed to cross list all traded shares.
- The Kuala Lumpur Stock Exchange and the Korea Stock Exchange -1996.
- The Philippine Stock Exchange and the Australian Stock Exchange -1998.
- Hong Kong and Singapore Exchanges.

Cross Listing

Examples-4

- London Stock Exchange and Deutsche Bourse.
- Swiss Exchange and Paris Bourse.
- Lisbon and Sao Paulo Stock Exchanges
- As of November 2003 there were 181 Canadian listings in the United States.

And so on.....

WHAT IS CROSS MEMBERSHIP?

Cross membership is whereby Two or more exchanges, upon an agreement between themselves, provide reciprocal access of members to their trading engines.

GLOBAL EXAMPLES OF CROSS MEMBERSHIP AGREEMENTS

- *Bahrain Stock Exchange and Kuwait Stock Exchange (1997)*
- *London Stock Exchange and Deutsche Bourse (1998)*
- *Eurex and Matif/Monep (1998)*
- *Belgium, the Netherlands and Luxembourg (1998)*
- *Swiss Exchange and Paris Bourse (1999)*
- *Lisbon and Sao Paulo Stock Exchanges (1999)*
- *Luxembourg Stock Exchange and Euronext (2000)*
- *Helsinki Exchange and Euronext (2001)*
- *Singapore Exchange Limited and Tokyo Stock Exchange (2001)*
- *Warsaw Stock Exchange and Euronext (2002)*
- *Salvadoran and Guatemalan Exchanges*

ADVANTAGES OF CROSS MEMBERSHIP

- Broaden the fee base by increasing the number of members of the exchange, makes it possible to reduce the cost of membership
- Investors are best served by low cost access to a highly liquid market
- The greater the number of participants the more the systemic risk is reduced as the risk is spread between more members
- Increased exposure to global markets, the increased exposure allows the exchange to compete internationally for market share
- Improved liquidity, the greater the access to the market, the greater the potential to increase liquidity

DISADVANTAGES OF CROSS MEMBERSHIP

- Increase in membership will not necessarily lead to a reduction in costs if technological advances are to be made to existing computer systems to accommodate cross border order flows
- Market migration - market may migrate to more efficient, liquid and cost effective international exchanges. Issuers will be able to more easily attract funds at lower costs and better terms, and tap into wider investor bases
- Increased complexities of surveillance - additional personnel and computer systems needed for cross-border surveillance

CROSS MEMBERSHIP

Issues of cooperation for Stock Exchanges

- Establishing principles for acceptance of foreign members
- Creating direct communication links among the custody and settlement institutions in the region
- Establishing principles for trading, custody and settlement (cash clearing, delivery and registration of securities)

CROSS MEMBERSHIP

Cooperation, coordination and communication among the regulatory authorities to jointly develop principles for;

- Licensing of the foreign intermediaries,
- Regulatory treatment of the foreign intermediaries
- Investor protection and failure of market intermediaries
- Prevention of money laundering
- Information sharing (in the form of MoUs)

MAJOR IMPEDIMENTS TO CROSS BORDER TRADING BY FINANCIAL INTERMEDIARIES IN EMERGING MARKETS

- Strict foreign exchange controls repress capital movements across shores
- Many exchanges in emerging markets lack sophistication, markets are narrow and not very liquid thus vulnerable to manipulation
- There is lack of confidence on investors side in the market due to inadequate disclosure standards (transparency, fairness, investor protection are areas of concern for potential investors)
- Lack of automation and development in the fields of communication and information technology is inhibiting growth of cross border trading in emerging markets.

WHAT CAN BE DONE TO OVERCOME THESE IMPEDIMENTS?

- Maintain investor confidence
- Good corporate governance
- Enactment of disclosure and documentation standards in line with international best practices
- Better risk management systems
- Redress liquidity problem and add depth to capital markets
- Liberalization of foreign exchange controls, minimizing restrictions on foreign portfolio investment
- The change-over to electronic trading
- Privatization of state companies

REGULATION OF REMOTE CROSS-BORDER FINANCIAL INTERMEDIARIES

WHICH SECURITIES REGULATION SHOULD THE FOREIGN INTERMEDIARY BE SUBJECT TO?

TWO MAIN APPROACHES

1. SOPHISTICATION OF THE INVESTOR APPROACH

Some countries do not apply all local requirements to foreign intermediaries that engage in cross-border transactions with sophisticated investors due to the fact that, well-capitalized investors do not need the complete protection of securities regulations under certain circumstances. (*United states*)

REGULATION OF REMOTE CROSS-BORDER FINANCIAL INTERMEDIARIES

2. UNILATERAL AND MUTUAL RECOGNITION APPROACHES

UNILATERAL RECOGNITION APPROACH

Under this approach, a country does not apply local requirements to a foreign intermediary, if the home regulatory regime to which that intermediary is subject meets certain investor protection criteria.
(Australia)

MUTUAL RECOGNITION APPROACH

It is similar to the unilateral recognition system, but it requires reciprocity. Under this approach, each country recognizes that the other's regulatory regime provides the necessary investor and market protections. *(European union)*

REGULATION OF REMOTE CROSS-BORDER FINANCIAL INTERMEDIARIES

3. OTHER FACTORS : SOLICITATION, FINANCIAL INSTRUMENTS AND DISCLOSURE

Some countries consider other factors in addition to, or to the exclusion of the two primary approaches. These factors are :

SOLICITATION -

Some countries provide exemptions of local requirements if a domestic investor contacts the foreign intermediary on an unsolicited basis, to effect transaction on a foreign market.

(Japan and Hong Kong)

FINANCIAL INSTRUMENTS-

In such cases, transactions in certain instruments may subject a foreign intermediary to local requirements, while others may not.

REGULATION OF REMOTE CROSS-BORDER FINANCIAL INTERMEDIARIES

RECOMMENDATION FOR EMERGING MARKETS

It is very important for emerging markets to exercise *maximum regulatory authority* over the foreign intermediaries to minimize the risk of fraud and market manipulation. Due to their structure and stage in development of disclosure standards, emerging markets are highly susceptible to such practices.

CROSS MEMBERSHIP

Examples

- Sgx Link with Australia
 - Direct access to Australian SE via Singapore SE brokers.
 - A set of core trading principles set between the markets.
 - Singapore Settlement Company (CDP) acts as the nominee for Singapore investors' holdings.
 - CDP appoints a custodian and settlement agent in Australia to hold the ASX securities.
 - CDP, in turn, will reflect the investors' ownership in ASX securities through credits to the account maintained with CDP or their Depository Agent subaccount.

CROSS MEMBERSHIP

Examples-2

Norex Alliance

- Sweden, Denmark, Norway, Iceland, Finland, Estonia and Latvia
- A common system for share trading,
- Harmonised trading and membership rules and regulations for exchanges in different countries

CREATION OF INDICES

- Benchmark Index

A list of can be formed among the companies whose securities are listed/traded at the participating stock exchanges. These companies can form the basis for the calculation of a **Regional Benchmark Index**.

- Performance Indices

- **Subregional**-such as Middle East or South East Asia
- **Bluechips**- Selection of the companies can be based on criteria such as **trade volume** and **market capitalization**.

CREATION OF INDICES

Why do we need it?

- Creation of “Visibility” and “Awareness” to attract the attention of portfolio investors worldwide.
- Once the performance of the index is experienced it can be used as a **marketing tool** to attract foreign as well as local institutional investors.
- Facilitate the creation of various new mutual funds that will invest in the indices or the underlying securities.
- Seek assistance and guidance of specialized international index providers such as Dow Jones or FTSE for recognition and credibility.

COOPERATION WITH EXISTING FEDERATIONS

- **WFE** - World Federation of Exchanges
- **FESE** - Federation of European Exchanges
- **FEAS** - Federation of Euro-Asian Stock Exchanges
- **SAFE** - South Asian Federation of Exchanges
- **ASE** - African Stock Exchange Association
- **SADC** - South African Dev. Com. Exchanges
- **FIABV** - Federation of Ibero-American Exchanges
- (Union of Arab Stock Exchanges)

COOPERATION WITH EXISTING FEDERATIONS

- Increase cooperation with the existing federations by utilizing their data centers, recommendations, training programs and other activities.
- “Best Practices for the Development of Stock Exchanges”, a joint production of ISE, FEAS and OECD, can be utilized for self-assessment.

TRAINING AND TECHNICAL COOPERATION

- Signing of MoUs
- Training programs,

Example: FEAS Bilateral Program

- Establishment of Working Committees,
- Questionnaire on Harmonization of Rules, Trading Systems and Best Practices.