



OIC Capital Market Linkages

Task Force Report
OIC Member States' Stock Exchanges
Working Committee Meeting
Abudhabi, April 2010

Participants

- Tehran Stock Exchange (coordinator)
- Bursa Malaysia
- Dhaka Stock Exchange
- Dubai Financial Market
- Istanbul Stock Exchange
- Lahore Stock Exchange
- Muscat Securities Market



Decision of the OIC Forum

- Cross-border models of linkages, in particular, multilateral modalities of simulated trades should be studied by the Task Force.



RESOLUTION OF THE TWENTY-FIFTH SESSION OF THE COMCEC (November 2009)

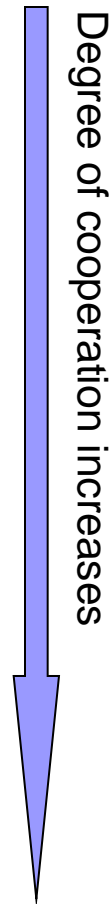
Cooperation among the Stock Exchanges of the OIC Member States

- **59. Welcomes the progress made at the 3rd Forum of Stock Exchanges of OIC Member States and calls on the Member States' Stock Exchanges to actively participate in the meetings and activities of the Forum;**

- **60. Calls on Member States and relevant OIC Institutions to develop a similar cooperation mechanism for Capital Markets' Regulatory Bodies of Member States.**

Alternatives of cooperation for OIC stock exchanges

- Cooperation agreements on various areas
- Data dissemination and publication
- Creation of indices
- Development/launch of common products
- Cross membership
- Cross listing
- Common trading platform





Importance of Regional Cooperation

- Expanded marketplace for investors and issuers from within and outside the Region
- More diverse offering of securities and decreased risk for portfolio investments
- Fast improvements in standards of market quality and integrity, innovative products and services



Importance of Regional Cooperation

- Emerging markets to lead the recovery
- An attractive trading initiative for both regional and global investors
 - common indices, ETFs, Islamic financial products, etc.
 - increasing trend in IPOs along with the economic recovery
- An alternative trading initiative for the investors who would like to be involved in Islamic finance
- Will pave the way to cover other financial products such as Islamic financial bonds (i.e. sukuk)

Importance of Regional Cooperation

- Global trends in the exchange industry necessitate regional partnerships
 - Rise of alternative trading platforms and increased competition
 - Stock exchanges becoming more for-profit organisations
 - Rise of cooperation and consolidation between stock exchanges
 - Technology, the main determinant in competition, requires large-scale investment difficult to be afforded by small exchanges
 - Removal of national barriers in stock trading
 - Algorithmic trading and electronic platforms grow up

Future Outlook

- New era, together with risks, may bring opportunities for OIC member countries
- New players will be in the game at the upcoming years
- OIC Member States' Stock Exchanges Forum will play an important role in increasing the competitiveness of OIC members' stock exchanges

Actions of the Task Force

- Information was requested from the all members of OIC on market-linkages.
- According to the answers of the members: Abu Dhabi, Dubai, Muscat and Egypt have experience on linkages.
 - ADX has linkages with Dubai Financial Market and Muscat SE.
 - MCDR has linkages with Lebanon, Kuwait, ADX and recently joining Link Up Markets
- Working on a new proposal for linkage (SAMIP)

Linking Exchanges

- Linking trading systems by connecting LANs
- The medium used is a leased line : 256 Kbps
- No regulatory changes required
- Settlement is carried out as per rules of the Exchange where the stock is listed
- Local brokers clear on behalf of remote brokers subject to an agreement in place and agreed upon collateral
- Disclosure is extended to remote exchanges



Relationship Between Brokers

- A broker select remote broker to obtain DMA and clearing facility
- Both brokers sign an agreement that defines responsibilities and liabilities (template provided by the Exchange)
- Local brokers undertake to clear on behalf of remote brokers agreed to provide DMA with
- Remote brokers undertake to transfer funds as agreed upon in the signed Agreement



Requirements for DMA

- Remote brokers must be licensed brokers in their home Exchange
- Remote brokers signed the settlement Agreement with local brokers
- Individual remote traders must be licensed to trade in their home Exchange
- Individual traders trained on remote trading rules and system



Investor Account Opening

- Investor submits application and required documentation to local broker to trade on remote Exchange
- Local broker undertakes to verify application and authenticity of documents' copies
- Request will be made to remote broker to open an investor account
- Original application form and documents are sent to remote broker periodically
- Statement of account can be obtained through the web site of each Exchange

Latest Developments

■ ASEAN Trading Link:

□ At February 8th, 2010 four ASEAN exchanges

- Bursa Malaysia,
- Philippine Stock Exchange,
- Singapore Exchange
- Stock Exchange of Thailand

signed a Letter of Intent with **NYSE Technologies**, appointing it as a solution provider to commence the design of the technology solution for the ASEAN Trading Link.

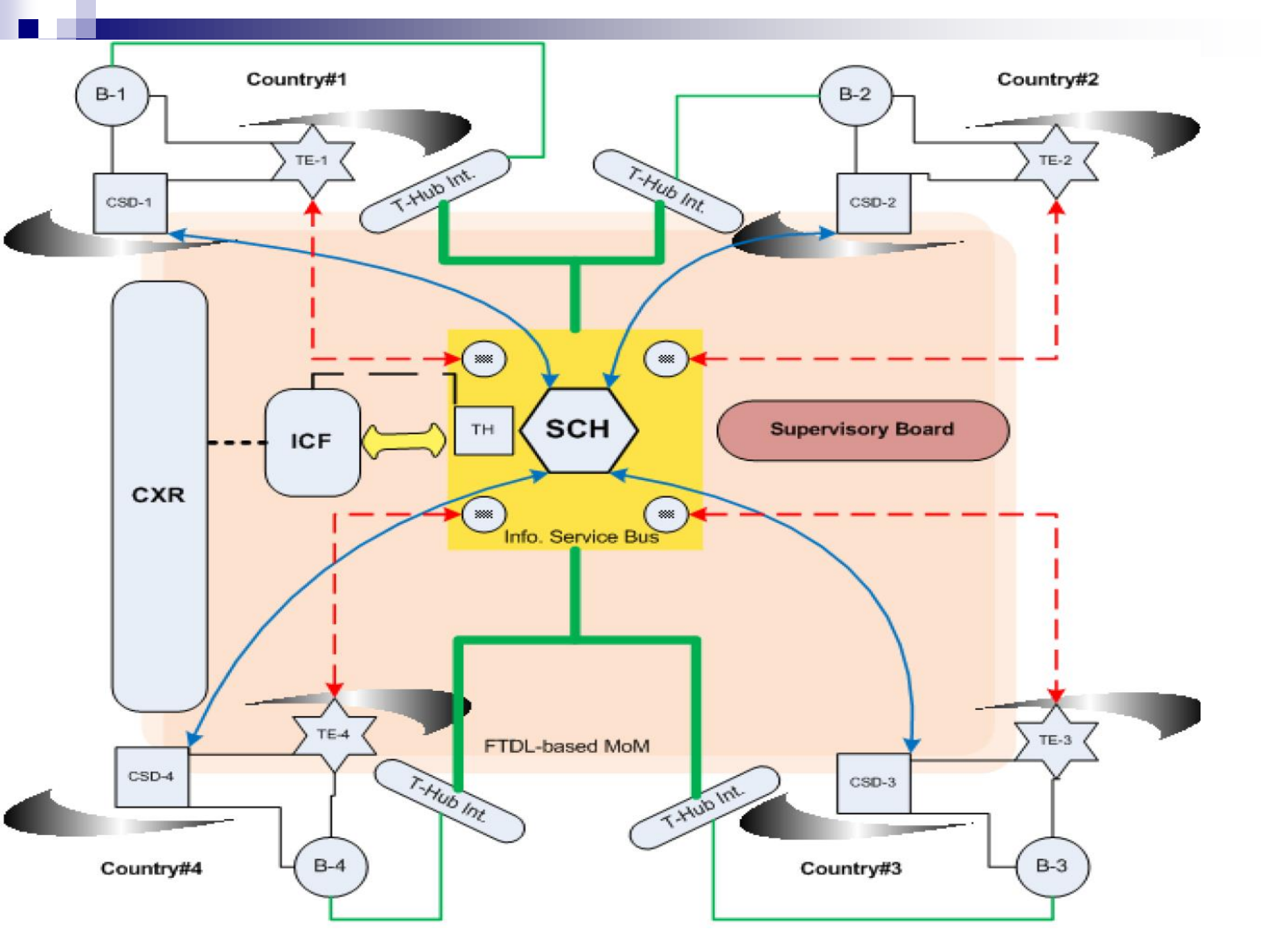


SAMIP: Settlement-Aware Market Interlink Protocol



SAMIP Philosophy and Requirements

- Philosophy
- Agents in form FTDL; the Financial Transaction Description Language.
- No change in IT infrastructure.
- Clear and straightforward T+0 international settlement.
- Two layers, one between participating CSDs and another between the local CSDs and brokers.



SAMIP: A Big Picture

- Local CSDs
 - as a clearing proxy for international clearing.
- 2. Local Trading/Matching Engines
 - small modification to enable to run the FTDL modules and match through them.
- 3. CXR (A Currency Exchange Market)
 - to identify an agreed upon exchange rate instantly.
- 4. SCH (the SAMIP Clearing House)
 - for international clearing between CSDs.
- 5. ICF (International Clearing Fund)
 - This fund should be supported by central banks of participating countries to exchange money in realtime according to the FTDL message issues by TH.



FTDL:

Financial Transaction Description Language

- To supply the trading engines with joint data and constraints.
- Capability of describing any financial event as well as data.
- FPML for describing the properties.
- New object classes from FPML objects (in XML) plus FTDL routines.
- Modular or object-oriented programming paradigm.
- Integration with enterprise service bus.
- Simplifying development of pre and post trade engines.



FTDL Libraries

- Seamless data retrieval interfaces from web services, RSS, BBS, etc
- Security Measurement modules This property will be immediately addressed in specification of SAMIP.
- Concurrency management to avoid violation of shared parameters.
- Communication channels just like ensuring the uniqueness of a buyer in the currency market.
- Seamless multi-threading to to keep some equivalences to be always held.
- Interfacing Modules to provide services to third parties .
- Money transaction integrated with the banking protocols like RTGS and ACH



FTDL-based SAMIP Specification



ICF : International Clearing FUND

Currency Exchange Risk Management Fund

- Clearing pool for all participant CSDs
- Domestic Central banks' role as money supplier and gauranteer
- Position management in ICF
- Management of fund
- Money exchange and transfer protocols



Tax and Commissions

- Unified commission rules
 - Including ICF commissions
- ⑩ Domestic tax rates
- ⑩ Money transfer commissions

Corporate Actions

- Rights and dividends through ICF on behalf of (SCH, local CSD, Investor).
- Stock Split and spin offs on behalf of SCH, local CSD, local Custodian, investor)
- Legal transactions(distrain, pledge, usufruct) follows the investor's country rules and regulations on the contrary order [destination CSD(Investor's CSD), SCH, security's CSD]



Data Dissemination

- Live raw data through 'Trading Hub'
- Order tracking data through FTDL module
- Administrative data broadcast through SCH and TH
- Event unicast routing using SCH message routing
- CSD data through TH
- Book-Entry acknowledgement through SCH and TH



Actions of the Task Force

- Following the information gathered by the Task Force, OIC Forum has invited the representatives from these exchanges to make a detailed presentation on the subject.
- After these presentations and visit to ADX, Task Force will evaluate the information and make recommendations at next meeting.
- Task Force will continue working on the details of SAMIP.



Thanks

for

your

attention