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# Capital Market Linkages Project Group Progress Report

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# Capital Market Linkages Project Group

- **September 2011, OIC Forum Meeting Decisions:**
  - Task Force for Capital Market Linkages is converted into a project group of volunteering exchanges: *İMKB, Dubai Financial Market, Qatar Exchange, Lahore Stock Exchange, Egyptian Exchange, Tehran Stock Exchange*
  - Members of this project group are required to endeavor to realize bi-lateral and/or multi-lateral linkages, including trading, post-trade services, technological infrastructure, and so forth.

# Activities carried out by İMKB

Different criteria have to be considered for market linkage decision to choose the right model:



# Activities carried out by İMKB

## 1. **Assessment of the feasibility and benefit of a regional market linkage together with the domestic and international brokerage houses (HSBC, Citi, etc.)**

Market linkage;

- offers growth opportunities based on increased funds flow to emerging countries.
- can support the development of domestic institutional funds.
- may serve as a tool for individual investors to reach out the international markets.
- can constitute a global competitive edge with the member countries at the same time zone.

# Activities carried out by İMKB

- The funds flowing to the region indicates that there is a potential between the exchanges.
- Market linkage among OIC markets can support the regional competitive power as well as awareness of the region.
- In addition to equities, fixed income securities including Islamic Financial Instruments may attract investors that will be connected by market linkage.
- Also, there can be a significant demand for the index-based financial instruments representing the local market.
- Considering the macroeconomic outlook, it is not rational to expect a high volume effect of market linkage at the initial step.
- It is important to enhance a long-term strategy for regional promotion before the realization of market linkages project. Road shows, investor conferences and other marketing facilities have a vital role to establish the system.

# Activities carried out by İMKB

## 2. Meetings with market connectivity technology providers

Outcomes of the meetings:

- Market linkage has two vital components:
  - ✓ Execution part
    - Existing market connectivity networks (such as NYSE, NASDAQ) or
    - Technology provider solutions (such as Sungard, BT Radianz)
  - ✓ Post-trade activities: settlement and custody
- Considering different alternatives, market linkage requires an initial investment, but this is a strategic decision that can generate future opportunities.

# Activities carried out by İMKB

## 3. Meetings with the international custody solution providers

Outcomes of the meetings:

- As per international best practices, local brokers serve only for trade execution, foreign brokers settle their trades through custodians and receive custody & asset services from the custodian banks. This eliminates counterparty risk for the brokers.
- Today, lack of such post-trade services set up, prevents local brokerage houses from engaging in cross-border activities.
- Therefore, a global settlement and custody solution is required for cross border trading activities.

# Activities carried out by İMKB

## 4. Relations with the Egyptian Exchange (EGX)

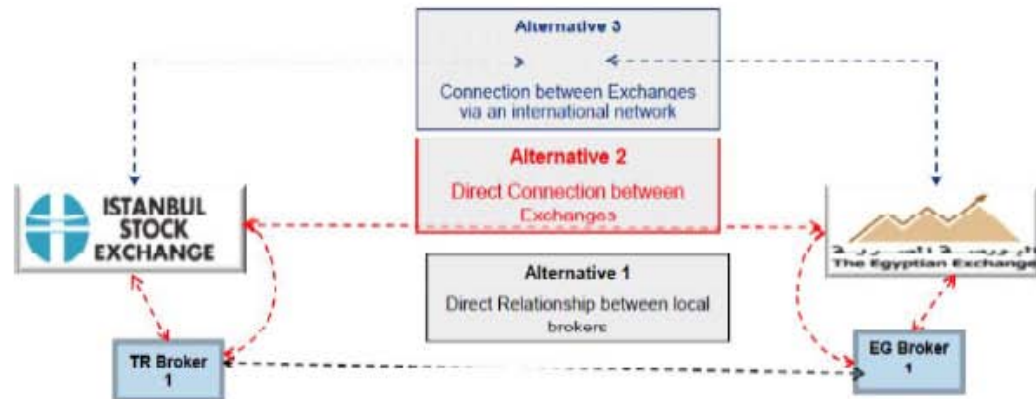
On June 22, 2012 İMKB signed an MOU with the Egyptian Exchange in İstanbul, including cooperation in:

*“Inter-market Linkage/Connectivity, cross listing of ETFs, development of EGX-İMKB Joint Indexes, market data distribution, exchange technology, initial and ongoing listing and IPO regulations and incentives, and joint events with the common objective of improving the understanding and knowledge of capital markets and exchanges in both countries”.*

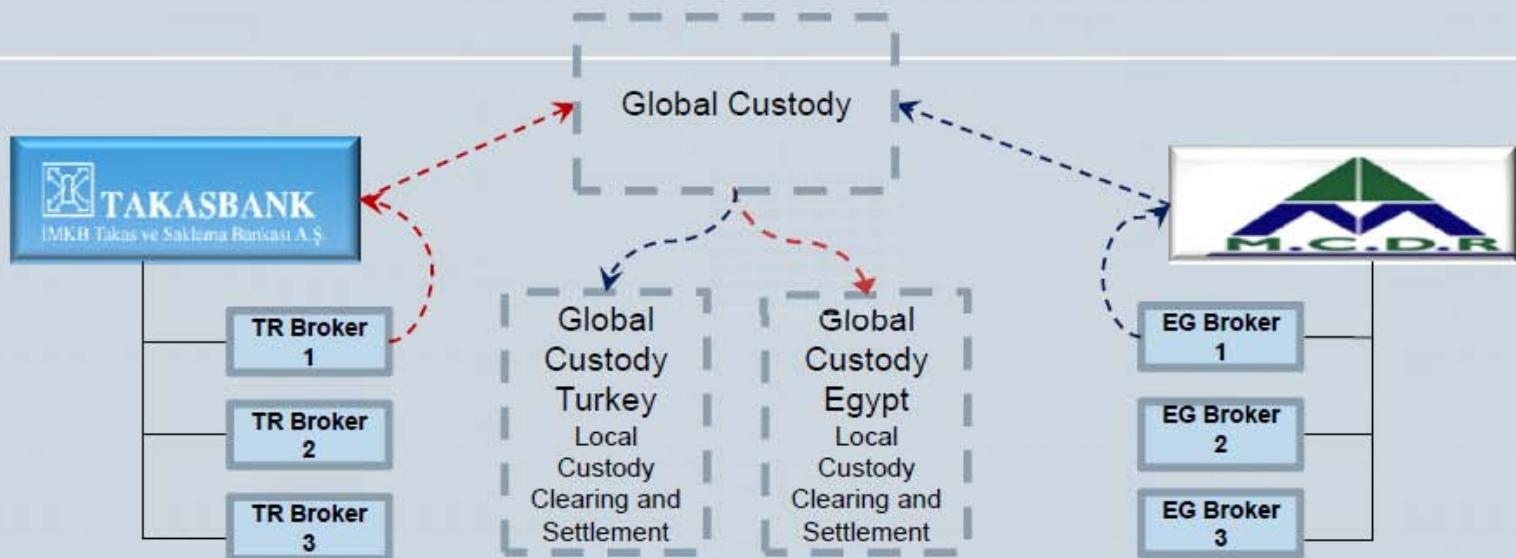


# Activities carried out by İMKB

## Trade Execution



## Post Trade Solution \*



\* This post-trade solution is valid and applicable regardless of the preferred type of trade execution connectivity.

# Activities carried out by İMKB

## İMKB-EGX Cooperation on Trade Execution Part:

- İMKB and EGX work on bilateral market data dissemination and order routing possibilities (Alternative 2 on the previous slide).
- EGX has a FIX router connected to Fidessa network for routing orders.
- EGX has also its EGX Network where Banks and Brokers are connected to.
- EGX FIX router have cost advantage compared to other connectivity provider networks. Secondarily it has aggregation, monitoring, surveillance and regulation advantages.
- It could be possible to connect EGX and İMKB FIX Hubs to provide market data or order flow between exchanges.

# Activities carried out by İMKB

## İMKB-EGX Cooperation on Trade Execution Part:

- EGX and İMKB have both declared willingness to share expertise and service to each other in architecture, development and testing areas.
- EGX has provided technical documents about its FIX router connectivity model. İMKB is currently devising a model to provide this connection.
- Regular conference calls are planned to keep track of the process more closely.
- Onsite workshops and further technical cooperation will be planned soon.

# Activities carried out by İMKB

5. **As a final step, all models for execution and post-trade services have been evaluated.**

**The assessment of the final situation is still under progress.**

**It is important to decide on the settlement & custody solution as well as the development of technological infrastructure among exchanges to have a sound capital market linkage model.**

# Activities carried out by TAKASBANK

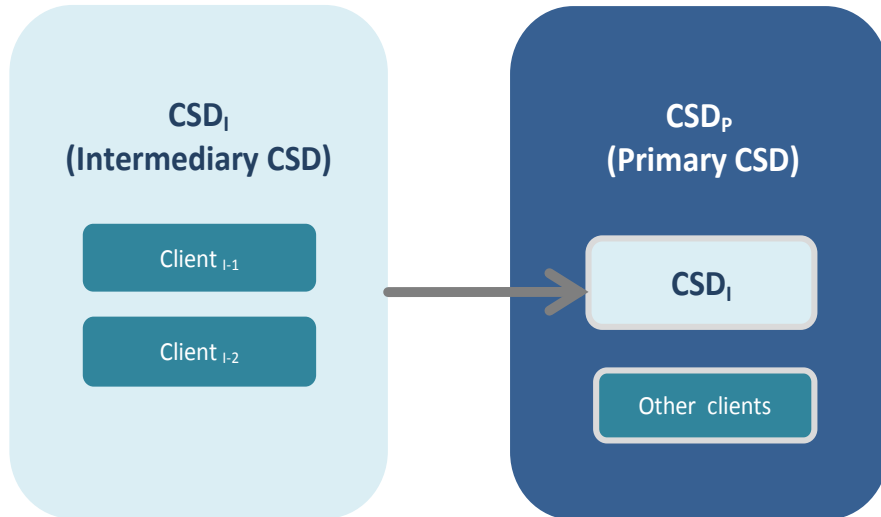
## 1. As post trade infrastructure provider, research on the best fit post trade solution for the market linkage in the MENA Region.

### «Direct Post Trade Linkage vs Global Custody Solution»

- **Global Custody Solution** at the initial stage in order to
  - Reach multiple market with one connection to the global custodian
  - Low infrastructure cost
  - Get the know how of about the market practices and operations from the global custodian(s) which operates in MENA markets for a long time
- **Direct Linkage of Post Trade and Custody Infrastructure**
  - Target in the medium term
  - Requires infrastructure cost and know how
  - Best for low transaction costs where the volume is high
  - Best for harmonization and interoperability of markets

# Activities carried out by TAKASBANK

## Direct Link

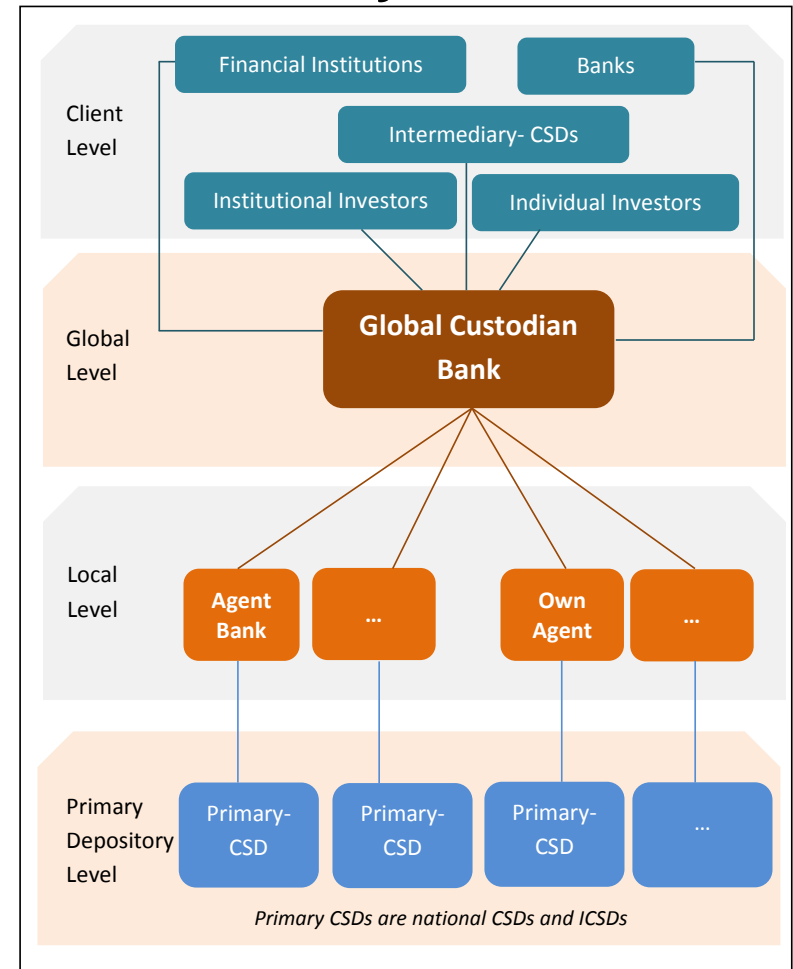


**Primary-CSD:** the securities are primarily deposited

**Intermediary-CSD:** intermediates holding, transfer and all related operations of the securities through an account at the Primary-CSD or at a local custodian bank

**Agent Bank:** provides post trade and custody services at the country of Primary –CSD (to the global custodian or to its own clients)

## Global Custody



# Activities carried out by TAKASBANK

2. **Account openings with global custodians with large market coverage- expected to be finalized in autumn 2012**
  - **Euroclear Bank/Belgium**
    - ✓ Has been working since 1997
  - **Citibank/London-UK**
    - ✓ Legal documentation completed and the agreement signed
    - ✓ Working on the market documentations and account structure
  - **SIX SIS/Switzerland**
    - ✓ Legal documentation completed
    - ✓ Working on the market documentation
    - ✓ Account structure is set up
  - **Clearstream Banking/Luxemburg**
    - ✓ Initial stage of the account opening process

# Activities carried out by TAKASBANK

## 3. Research on Post Trade Solutions in the MENA region- county analysis

- ✓ Egypt
- ✓ Qatar
- ✓ United Arab Emirates

## 4. Contacts with post trade providers in the region

- ✓ Egypt
- ✓ Qatar