

# **Capital Markets Linkages**

## **(A Brief Report)**

OIC Member States Exchanges Forum  
OIC Capital Market Linkage Project Group

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## **Topics**

- **History**
- **Results**
- **Challenges**
- **Proposals**



## History

### (Where Does the Idea Come From?)

- **Fifth Islamic Conference of Foreign Ministers in 1974**  
The idea of promoting investments among the OIC member countries
- **Executive Manager of IDB (about 10 years ago)**  
The first proposal for Islamic Securities Exchange
- **2<sup>nd</sup> Meeting of OIC Member States' Stock Exchanges Forum (Istanbul 2008)**
  - ✓ Tehran Stock Exchange presented the mentioned proposal again and the members ratified that.
  - ✓ A new task force was established: “Studying the feasibility of an Islamic securities exchange”.



## History

### (Decisions Made by the OIC Member States' Stock Exchanges)

- **1<sup>st</sup> Working Committee Meeting (Tehran, May 2009)**  
Creating a common trading platform
- **3<sup>rd</sup> Working Committee Meeting (Abu Dhabi, Apr 2010)**  
Increasing the number of linkages so that the cross country trades can be expedited and the trading volume between the member countries may be increased.
- **4<sup>th</sup> Meeting (Istanbul, Oct 2010)**
  - 1-Preparing the format for a multilateral MOU
  - 2- Encouraging member exchanges to start bilateral linkage efforts



## History

### ➤ **5<sup>th</sup> Meeting (Istanbul, Sept 2011)**

1- Task Force for Capital Market Linkages and the Task Force for Post-Trade Services converted into a project group of volunteering exchanges and post-trade institutions. The project group had been advised to cooperate with the Forum of regulatory bodies with regard to the legal framework.

2- The volunteering exchanges for linkage were as follow: Egyptian Exchange, Dubai Financial Market, Qatar Exchange, Istanbul Stock Exchange, Tehran Stock Exchange, Lahore Stock Exchange.



## **Goals of Capital Market Linkage**

- ▶ To make a more efficient and competitive markets ;
- ▶ To reach lower costs and higher returns ;
- ▶ To provide investors with access to a broader range of shares;
- ▶ To provide Issuers with access to a larger number of investors;
- ▶ To reduce the risk of market volatility due to increase in the size of the markets;
- ▶ To provide local investors in the OIC Member Countries with easy access to other OIC members' capital markets in terms of operational efficiency, cost effectiveness, technological developments; and
- ▶ To create awareness among the OIC Member Countries on benefits and costs of market linkages.



## **Results**

### **(Based on Questionnaire)**

TSE as a member of project group for “Capital Market Linkages“ prepared an inquiry. The questions were as follow:

- 1. Do you have any plan or policy for launching a trade/post trade link with Forum members? If yes, which member?**
- 2. Have you had any discussion with Forum members for establishing a trade/post trade link, yet? If yes, how was the result?**
- 3. What is the obstacle for making an E-Trading link based on agreement of trading intermediaries of exchanges?**



## Seven Members Responded

	Responders	Q. 1 (Any plan?)	Q. 2 (Any new effort?)	Q. 3 (Obstacle?)
1	<b>DFM</b>	Existing linkage between DFM & ADX	Discussing a linkage possibility with Egypt CSD(MCDR)	<ul style="list-style-type: none"> <li>✓Rules &amp; regulations</li> <li>✓Settlement of trades</li> <li>✓Cost of communications for the linkage</li> </ul>
2	<b>EGX</b>	Launched its FIX HUB project in July 2012 through linking to FIDESSA trading network	No (Already connected with Bursa Malaysia, Tadawul & DFM)	<ul style="list-style-type: none"> <li>✓Introducing the new idea to the market participants</li> <li>✓Regulator</li> </ul>
3	<b>Iran CSD</b>	Signed an MOU with Pakistan CDS	Trying to make the link with Pakistan CDS	<ul style="list-style-type: none"> <li>✓Clearing &amp; Settlement</li> <li>✓Rules &amp; Regulation</li> </ul>
4	<b>İMKB</b>	Signed an MOU with EGX	Discussions on trading and post trading services with EGX are in progress	Low demand in Market
5	<b>KASE</b>	No	No	<ul style="list-style-type: none"> <li>✓Harmonization of rules &amp; regulations</li> <li>✓Revisions of the agreements with trading intermediaries</li> </ul>
6	<b>Tadawul</b>	No	No	Business need
7	<b>TSE</b>	Existing linkage between TSE & Fara Bourse	Exchanging MOU with KSE	<ul style="list-style-type: none"> <li>✓Linked depository &amp; clearing system</li> <li>✓Rules &amp; Regulations</li> </ul>





## Challenges for Linkages

- *No serious impetus for linkage between member exchanges,*
- Variety of rules & regulations,
- Lack of unique/linked clearing & settlement system,
- Currency risk and lack of single money unit,
- The absence of large and active domestic institutional investors,
- Other challenges: differences in information disclosure rules; linguistic differences in reporting and information dissemination; lack of awareness among public investors and slow pace of innovation in financial products.



## Proposals

- **Encouraging member exchanges to promote linkages by the forum**
- **Establishing a Regional ETF**
  - ✓ A new committee/task force, “Legal & Technical committee”, can follow the establishing the regional ETF.
  - ✓ The ETF invests in foreign-based securities. The focus may be global, regional such as OIC member states’ stock exchanges or on a specific country.
- **Establishing an Index ETF on S&P/OIC COMSEC 50 Shariah index**

(Can be followed by the Task Force for Customized Indices and Exchange Traded Islamic Financial Products)



## Advantages

### ➤ For Local Investors:

- ✓ Broader choice of investment instruments
- ✓ Diversification

### ➤ For Local Market Practitioners:

- ✓ Profit generated from arbitraging between markets
- ✓ Service fees paid by foreign fund managers
- ✓ Revenue from trading commissions



## Advantages

### ➤ For Local Regulators:

Put cross-border investment under regulatory control

### ➤ For Fund Managers:

- ✓ Management fee from higher assets under management (AUM)
- ✓ Exposure (business, brand, etc.) in listing markets

### ➤ Others:

- ✓ Low expenses
- ✓ Simplicity



## Challenges

- **Introducing regional index**
- **Establishing & registering in various countries**
- **Listing in different exchanges**
- **Tax issues**
- **Rules & regulations**

# OIC Capital Market Linkage Project Group

## Tehran stock Exchange

