



Enhancing Regional Financial Cooperation in South Asia A Regulator's Perspective

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Confidence through collaboration

- Crisis of confidence
 - Fear ← → uncertainty
 - Looking for scapegoats
- Confidence building
- *“Greater coordination would be helpful especially in times of crisis like this. Although there is no institutional arrangement spanning Asia, there are informal arrangements.”*
 - RBI Governor Dr. Subbarao



New ideas on the horizon

- Asian Sovereign Wealth Funds
- Chinese and Japanese reserves
- Chiang Mai Initiative
- Emergency Preparedness Fund for Asia
- **'Their best hope of escaping the turmoil relatively unscathed is to be in a club, bound together by explicit or implicit guarantees' FT**



Sub Prime Crisis and global financial cooperation

- Jean Claude Trichet, President of the ECB October 14, 2008
- Importance of improving cooperation between national authorities
 - **crisis prevention side,**
 - **multilateral surveillance**
 - global level.
 - national and the regional
 - **level of cooperation and exchange of information**
 - **crisis management side**
 - **cross-border arrangements between financial authorities.**
 - cross-border arrangements between banking supervisors for dealing with weak banks.
- **Global nature of financial markets**
 - **increasing interlinkages between markets and institutions**
 - **assessment of systemic impact of a financial crisis**
 - **supervisory authorities share information**
 - risk exposures of large institutions
 - impact of shocks in their jurisdiction.



Sub Prime Crisis and global financial cooperation

- **Supervisory cooperation**
 - **intensified on a cross-sector basis.**
 - “More broadly, all competent financial authorities, central banks, supervisors and ministries of finance should **strengthen their coordination mechanisms for managing a crisis impacting cross-border financial institutions.**”



Regional collaboration Institutions on the map

1. ASEAN
 2. Association of South East Asian Nations Plus Three (ASEAN 3)
 3. Executive Meeting of East Asia Pacific Central Banks (EMEAP),
 4. Asia-Pacific Economic Cooperation (APEC),
 5. Asia-Europe Meeting (ASEM),
 6. East Asia Summit (EAS),
 7. South Asian Association for Regional Cooperation (SAARC),
 8. **Asia Pacific Regional Committee (APRC) of the International Organization of Securities Commissions (IOSCO),**
 9. **South Asian Federation of Exchanges (SAFE),**
 10. **South Asian Securities Regulators' Forum (SASRF),**
 11. **South East Asian Central Banks (SEACEN) Research and Training Centre** and
 12. South East Asia, New Zealand and Australia (SEANZA) countries.
- **Of these, India has been a member of SEANZA, EAS, ASEM, APRC, SAFE and SASRF.**



Facts about South Asian Capital Markets

- 1.62% of the total global stock market capitalization, as at end-2007, as against 0.49% as at end-2000;
 - Within low and middle income countries - 7.88% as at end-2000 to 10.94% as at end-2007;
- Stock market capitalization ratio shot up from 26.1% during 2000 to 77.2% during 2007;
- Stock turnover ratio (101.3% during 2007 and 167.9% during 2000) - world average (94.3% during 2007 and 122.1% during 2000);
- South Asia – over 12% of the total number of listed companies in the world).
 - 30.28% of the total listed companies in the low and middle income economies hail from South Asia



Regional financial cooperation agenda

- Dimensions
 - strengthening the **crisis management** regimes,
 - developing a **regional bond market**,
 - imparting **training** to the staff from member countries and
 - studying regional **exchange rate cooperation** and monetary integration.



Key reforms for financial integration

- Capital markets have to be strengthened along two distinct paths
 - by improving the investment climate (more stringent corporate governance norms) and
 - by increasing investor sophistication (increasing the role of institutional investors, such as pension funds).



South Asian Federation of Exchanges

- Common standards
 - international accounting standards
 - best business practices in capital markets.
- Encouraging cross-border listing
- Co-operation in human resource development,
- Facilitating technology transfer



Benefits of cross border listing

- Integration of the local capital market internationally
- Expand the pool of high-quality and diversity stocks on local exchanges and the range of investment opportunities for investors
- Raise the profile of local firms in the regional/international capital markets.
- Benchmark themselves with foreign companies who come to a jurisdiction to cross list.
- Benefits of bonding



Attitudes of Exchanges

- Keen to welcome listing
- Not so keen to see companies listing outside
- Keen to see cross border trading here
- Not so keen to see this outside

- Evidence from research



Constraints to cross border listing

- **Foreign exchange controls**
- **Regulatory restrictions**
 - Company Law
 - Listing Regulations
- **Practical Restrictions**
 - Clearing and Settlement issues



Harmonisation

- **Harmonisation of listing regulations**
 - Level playing field
 - Disclosure norms
 - Common Listing Standards
 - Cross border trading
 - **Simultaneous disclosure of company / price sensitive info** on all markets
 - **Harmonisation of settlement and trading arrangements** (currency issues)



Harmonisation - basics

- **Jurisdiction Equivalence**
- **Materiality**
- **Omission of Information**
- **Supplementary information**
- **Presentation**

- **Preconditions for cross listing**
 - political will
 - right incentives



Indian Depository Receipts

- Companies (Issue of Indian Depository Receipts) Rules, 2004
- Chapter VIA of the SEBI (Disclosure & Investor Protection) Guidelines, 2000
- Poor response
- RBI clearances the participation of NRIs and FIIs in IDRs



Indian Depository Receipts

- Eligibility criteria for issue of IDRs
 - Paid Up Capital and Free Reserves \$ 100 m.
 - Average turnover \$ 500 m in 3 financial years
 - Profits and dividends of not less than 10% for 5 years
 - Pre issue debt equity ratio – 2:1
 - Listed in the home country
 - Good compliance track record



Indian Depository Receipts

- Investors
 - NRIs and FIIs only with special RBI permission
 - 50% to QIBs
- Minimum Issue size: Rs. 50 cr.
- DISCLOSURES
 - Contents of prospectus
 - Risk factors and management perception
 - Market price information in home country
 - Dividend Policy
 - History of Exchange Rates in home country
 - Foreign investment and Exchange Controls in Home Country
 - Capital structure
 - Financial information



IOSCO

- Multilateral Memorandum of Understanding 2002
 - cross-border enforcement
 - exchange of information
- Comprehensive consultation policy
- “as an unambiguous operational priority the effective implementation - in particular within its wide membership - of the IOSCO Principles and of the IOSCO MOU, which are considered as primary instruments to facilitate cross-border cooperation, reduce global systemic risk, protect investors and ensure fair and efficient securities markets”.
- India – 15 MMOUs – One LOI



FII

- SEBI-Registered FIIs
- Entities from Australia and Asia
- Nearly 20% of all FIIs hail from this region
- Leading asset management firms in Asia have entered into the domestic mutual fund business.



Opening of trading terminals abroad

- Guidelines were issued in 1999
- Defines
 - Eligibility criteria
 - RBI permission
 - Foreign Regulatory authorities permission
 - Operation of the terminals
 - Contract note
 - Capital Adequacy, Margin System and Brokerage
 - Settlement Procedure
 - Monitoring and Surveillance
 - Grievance Redressal Mechanism



Risks from the turmoil

- Growth of protectionism
- More government intervention
- Re-regulation.