



RESILIENCE, CHANGE, TRANSFORMATION -- TRENDS IN GLOBAL MARKET STRUCTURE

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THE WFE:

- Established in 1961, the [WFE](#) is the global industry association for exchanges and clearing houses.
- We are headquartered in London, have 70 members representing over 250 market infrastructure providers, including standalone CCPs that are not part of exchange groups.
- Of our [members](#), 35% are in Asia-Pacific, 45% in EMEA and 20% in the Americas. Our members go from frontier to the world's largest including market infrastructures.
- WFE exchanges are home to 47,919 listed companies, and the market capitalisation of these entities is over \$109 trillion; around \$137 trillion (EOB) in trading annually passes through WFE members (at end 2020). WFE's 57 member CCPs collectively ensure that risk takers post some \$1 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements.

20 JOINT OIC-WFE MEMBERS

- Abu Dhabi Securities Exchange
- Amman Stock Exchange
- Bahrain Bourse
- **Borsa Istanbul (WFE Board of Directors)**
- BRVM
- Bursa Malaysia Berhad
- Casablanca Stock Exchange
- Dhaka Stock Exchange
- Dubai Financial Market
- Egyptian Exchange
- Indonesia Stock Exchange
- Kazakhstan Stock Exchange
- Boursa Kuwait
- Muscat Securities Exchange
- Nasdaq
- **Nigeria Stock Exchange (WFE Board of Directors)**
- Palestine Stock Exchange
- Qatar Stock Exchange
- **Saudi Stock Exchange Group (Tadawul) WFE Board of Directors**
- Tunisia Stock Exchange

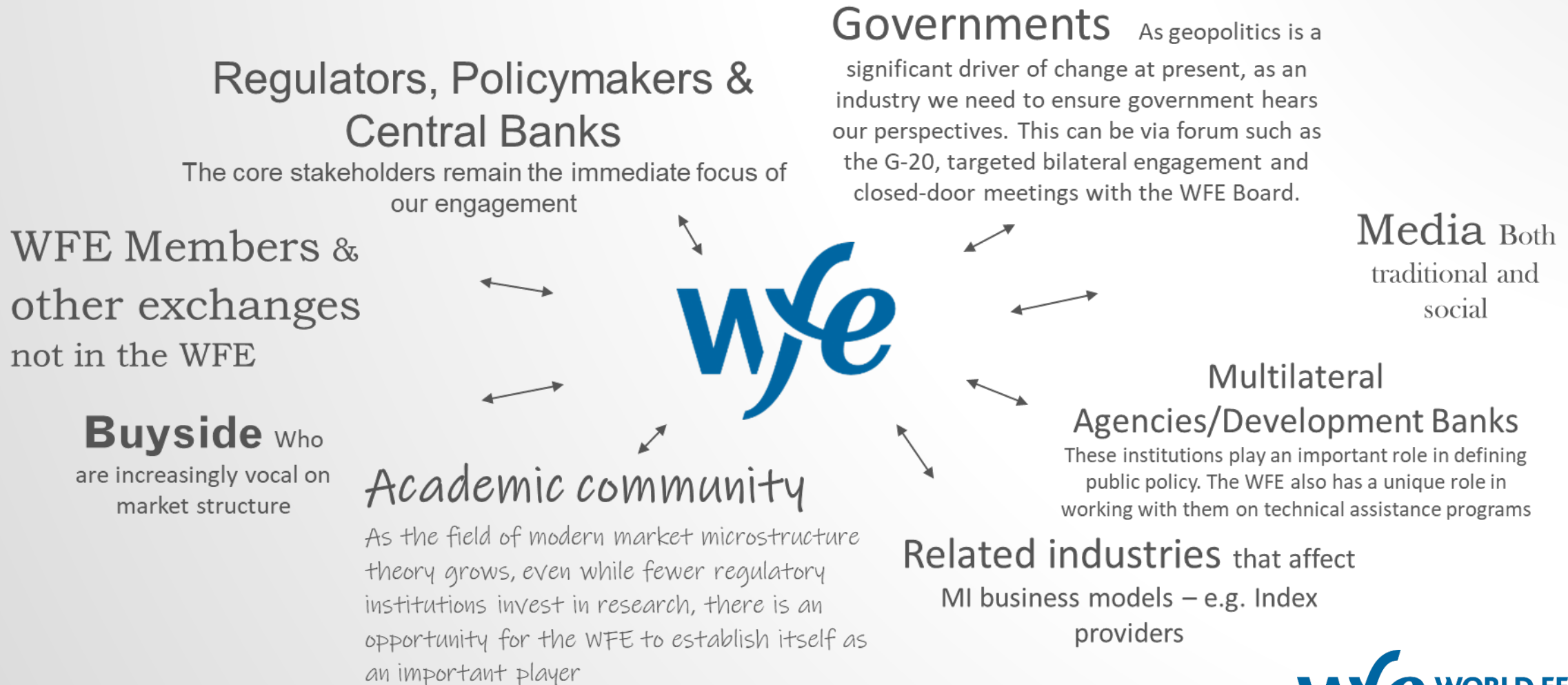
OUR VISION

- We champion the integrity of markets as the foundation of economic growth and welfare
- We believe in, and promote, the benefits of regulated, fair, orderly and transparent markets
- We strive to restore trust by enshrining investor protection at the heart of efficient market structure
- We advocate for markets and market structures that are resilient, robust and stable in the midst of both turmoil and innovation
- We seek to enable the free flow of capital globally through regulated market infrastructures

OUR MISSION

- To ensure the integrity of markets by **advocating** for the right market structure globally
- To unite the industry and find consensus on issues so we speak with **one strong voice**
- To foster **market development** that leads to optimal outcomes in the future and fosters sustainable growth
- To support and nurture **emerging markets**
- To enable the use of **innovation** and the use of **technology** for the benefit of investors around the world

DEFINING OUR STAKEHOLDERS



THE WORLD IN CRISIS – RIDING 2020

- The global Covid-19 pandemic, a health crisis, brought us as a society and a generation to a time no one has experienced before.
- Market infrastructure's are the guardians of the financial system, entrusted with a broader responsibility of being the trusted, neutral operators of frameworks that underpin financial markets globally. We run the infrastructure of the economy. This crisis was marked by a call to close the MI's to contain volatility.
- The MI/WFE role in the 2020 crisis had 2 parts, both of which continue to run in parallel in 2021. They are: (providing) Resilience and (driving) the Recovery.

WHAT CHANGED FOR THE INDUSTRY IN 2020-2021?

- A successful move to **remote operations** for market infrastructures across the world and new models of operation as BCP's were triggered. This was accompanied by the discovery that ecosystem resilience was less robust and that exchange customers were far less prepared but far more vocal.
- An unprecedented call to **close exchanges** as volatility and volumes surged.
- **Cyber attacks** and resilience in the spotlight as multiple industries were attacked including WHO, Amazon, the Guardian newspaper and the fuel industry in addition to market infrastructures.
- The rise of **retail investor participation** globally, in diverse markets, and under diverse conditions. From January 2015 to September 2020, on average, the number of retail trades increased by 358%, the value of retail trading increased by 317% & the number of retail accounts increased by 272%. (Source: WFE Research analysis.)

WHAT CHANGED FOR THE INDUSTRY IN 2020-2021?

- A boom in app-based **discount brokerages** such as Robinhood and the so-called **gamification** of investing. First time investors accounted for 1.5 million of Robinhood's 3 million funded accounts opened in the first four months of 2020 (Source: WSJ). The average account size at Robinhood was only \$2,000. (Source: Brokerage-Review.com)
- A new phenomena: **the meme stock**. During the last week of January 2021, GameStop shares experienced a 17-times increase in price and a 15-times increase in trading volume.
- **Crypto assets** began to mainstream even as volatility showed no sign of abating. Within five days in January 2021, the price of Bitcoin soared from \$30,000 U.S. to \$40,000 U.S. with Bitcoin's market cap more than doubling in early January 2021 vs November 2020. (Source: statista.com)

WHAT CHANGED FOR THE INDUSTRY IN 2020-2021?

- A boom in **SPAC's**. In 2021 Q1, there were 296 SPACs IPOs, which in total raised \$96.4 bn. While during the entire year of 2020, there were 248 SPACs IPOs with \$83.4 bn raised. (source: spacresearch.com)
- Capital allocated to **private markets** has tripled since the Global Financial Crisis (GFC), from \$2.5 trillion to \$7.7 trillion at the end of '20. Private markets are a bigger and deeper component of institutional portfolios than ever before, making up 6.3% of public market size, from 3.8% before the GFC. (source: Russell Investments.)
- A ramp up in **mainstreaming of ESG for financial markets** – an issue the exchanges have worked on for decades. While 'Climate First' and 'Build Back Better' became ubiquitous phrases, biodiversity & nature, and the S and the G also began to draw increased attention.

THE WFE'S 2021 PRIORITIES:

- Operational resilience of Market Infrastructure
- The role of Market Infrastructure and markets-based finance in enabling an inclusive recovery
- Market data
- CCP capital and loss allocation issues
- ESG
- Investor protection & financial literacy

WFE HIGHLIGHTS 2020 & 2021

- A new workplan prioritizing the issues Covid-19 brought to the fore. This spanned both emerging and developed markets.
- The issues we focused on for the Resilience agenda were & are: keeping markets open, short selling, volatility & the appropriate mechanisms to manage them, remote operation, risk management practices at CCPs, safety for MI personnel and fundamental issues around BCP and MI business resilience including information sharing.
- The issues we focused on for the Recovery agenda were and are: the role of exchanges in funding, support for issuers, policy levers to enable growth in Covid-19 world, the role of financial markets in building back better.

WFE HIGHLIGHTS 2020 & 2021:

- Campaign to **keep exchange markets open** with both public guidance for members & stakeholders and private bilateral conversations on behalf of members.
- Ongoing campaign to **advocate members resilience** and BCP preparedness with success in getting policymakers to understand ecosystem resilience is key. See WFE Research paper on **procyclicality of CCP Margin Models** and multiple WFE Regulatory Affairs submissions to regulators. Also practical efforts to support members with WFE guidance around outages from Enterprise Risk Working Group.
- Ongoing campaign to educate stakeholders on **exchange volatility measures** and the **role of short selling** in markets. See WFE Research paper on **Circuit Breakers** and WFE Regulatory Affairs submissions on **Short Selling**.

THREE TRENDS: OPERATIONAL RESILIENCE & AN INCLUSIVE RECOVERY:

- Market infrastructures are the guardians of the financial system, entrusted with a broader responsibility of being the trusted, neutral operators of frameworks that underpin financial markets globally. We run the infrastructure of the economy. This crisis was marked by a call to close the MI's to contain volatility. The WFE gave **guidance** to members: exchanges should remain open.
- The issues we focused on for the Resilience agenda were: keeping markets open, short selling, volatility & the appropriate mechanisms to manage them, remote operation, risk management practices at CCPs, safety for MI personnel and fundamental issues around BCP and MI business resilience including information sharing.

THREE TRENDS: OPERATIONAL RESILIENCE & AN INCLUSIVE RECOVERY:

- Markets remained open: for capital raising, for trading, for hedging and mitigating risk and to facilitate price formation.
- WFE members: on average, an exchange handled 31 million Trades per month from 2015-2019 (5 years). They handled 53.6 million trades per month during the year 2020. This is a 73% increase in the number of trades handled by the exchanges. In H1 2020, compared to H2 2019, equity markets saw record-high levels of value traded (49.7%) and volumes (47.1%)
- The issues we focused on for the **Recovery** agenda were: the role of exchanges in funding, support for issuers, policy levers to enable growth in Covid-19 world, the role of financial markets in building back better.
- In June 2020 companies raised 31.38 billion USD through IPO, which is a nearly triple (294.1%) increase on May 2020. The June figure is among the highest capital amount raised through IPO in the last 6.5 years, even while in the first-half overall, initial public offerings fell both year on year and relative to the second half of 2019.

THREE TRENDS: THE ROLE OF RETAIL INVESTORS

- During October-December 2020, WFE Research conducted a survey on retail investment. The survey consisted of two parts: a Qualitative questionnaire and Quantitative template.
- About 57% of respondents found retail participation has grown over the last 10 years.
- Covid-19 increased retail participation. The increase is attributed to: a decline in foreign institutional investors participation; high volatility; national currency depreciation risks; lockdown; people WFH hence extra money available; a booming market; technology; attractive entry points and new listings
- The majority of exchanges are seeking to increase Retail Investor participation.

THREE TRENDS: ESG

- The WFE's seventh annual sustainability survey continues to capture the nature and the extent of member engagement with ESG issues, and how this has evolved over time. 62 exchanges participated this year.
- This year, five respondents reported engagement in all of the 12 listed ESG initiatives, whereas no respondent from last year had implemented all initiatives.
- More exchanges offered ESG education, with this initiative moving from the eighth to the third position on the list this year.
- The number of exchanges with initiatives that correspond to all five WFE Sustainability Principles increased by 10 percentage points to 50.8%.
- Exchanges implemented more sustainability initiatives this year—the average number of initiatives per exchange increased significantly from 6.7 to 7.7—and there have been more initiatives implemented by the exchanges.
- The lack of resources to implement initiatives, which was the most reported concern last year, has now dropped to the fourth place. Business and economic concerns are now at the top of the list, probably a reflection of the uncertainty brought by the pandemic.

ESG CONTINUED:

- Of the three ESG components, Governance is the area where, on average, exchanges placed most of their ESG efforts during 2020 (42.86%), followed by the Social (31.45%), and the Environmental (25.67%).
- There is still no convergence on ESG standards and formats adopted by the exchange industry. Indeed, some WFE members raised the issue of global divergence on standards and practices as a major obstacle in carrying out their sustainability efforts.
- While green bonds continue to be the most offered ESG products, offerings across all sustainability product categories have increased, and new categories, like Sustainability-linked bonds (SLBs), are now offered. While SLBs were introduced only two years ago, nine exchanges already reported offering them.

AN ACTION MENU - THE PATH FORWARD

- Support and **nurture regulated public markets**. Without them there cannot be any successful capital market. Exchanges and CCPs should be deemed essential public service.
- Create an **enabling ecosystem** through policy levers. Regulation should be a tool for growth in addition to being a tool for investor protection.
- Pursue policies that improve and **enhance liquidity** through new products and innovation and develop local and then international investor bases. Do not fear **volatility** – manage it.
- Create a strategy for **risk management** and post trade
- Financial **literacy** and investor **education**