Strengthening capital markets to promote development

By Stephan Pouyat, Global Head of Capital Markets, Funds and ETFs, Euroclear.

The importance of a strong capital market in boosting development is not always recognised. This was the focal point of my session at the International Finance Corporation (IFC), the Capital Markets - Pacific Alliance Conference.

This was hot on the heels of a recent address I made at Kazakhstan's 2nd Astana International Capital Markets Forum and following our work with the Kazakhstan to open their market up.

This is a vibrant region where numerous governments and market authorities have not only recognised the need to develop their capital markets, but undertaken vigorous reform programmes.

Taking this to the next stage will be the focus of my panel discussion with the likes of Jingdong Hua, Vice President and Treasurer, at the IFC.

Interestingly, the IFC and Euroclear have much in common as facilitators of capital market development and international best practices. In fact, we expect to agree an MOU outlining our how we plan to collaborate and support the G20's objectives and the UN's Sustainable Development Goals (SDGs).

Keys to developing capital market capacity

I do like looking at how each country can develop its capital market capacity. Ultimately, it is always for the greater good of a country's inhabitants.

Often, a key aim is to attract international investor interest – this can cut borrowing costs for the government and increased scope for private sector funding and development.

Getting that investor interest requires two things:

1. Establishing a legal and regulatory framework that conforms to international norms

2. Making it easy for international investors to trade in the local market without the need for special, costly practices or a local presence

At Euroclear, we have worked with a host of countries to help them achieve the reforms that will make their markets Euroclearable. This allows investors to buy and sell in these markets via their single Euroclear account – just as they would in New York, London or Tokyo.

euroclear

Argentina emerges

The MSCI's recent upgrade of Argentina's emerging-market status was driven by international institutional investor confidence in Argentina's ability to maintain its market accessibility conditions. This is an important factor of MSCI's classification framework and the fundamental concept of Euroclearability.

This decision is likely to attract capital flows from a significant pool of both foreign active and passive investors.

Franklin Templeton estimate this could mean between USD 1,5-1,9 billion of passive inflows and up to USD 1,6 billion of actively managed inflows.

Euroclearability across Latin America

Peru's strategy to 'solarise' its debt and make it Euroclearable has been well rewarded as today's liquidity of the 'Euroclearble' bond is 10 times better in comparison to the average liquidity of old soles bonds whilst at the same time the issuer has seen its cost of borrowing reducing by 20 to 25 bps.

Shortly after the development, J.P. Morgan's Emerging Marketing Index indicated that inclusion of the 2017 bond issue saw Peru's weighting in its emerging markets bond index rise by 41 basis points, to 2.7%, allowing international investors to increase their holdings of Peruvian government debt accordingly.

Parallel initiatives

As markets move, they can encourage more long-term participation in the local market by international investors including encouraging:

- Exchange Traded Funds (ETFs) linked to the local market can also play a role in stimulating international interest – providing a quick and simple tool for shifting portfolio weightings
- the local market to take note of the rise in socially responsible investing based on Environmental, Social and Governance (ESG) criteria. International institutional investors are becoming more serious about this. Meanwhile the MSCI has launched ESG indices and some local exchanges have introduced their own sustainability indices. Brazil is among them.

There are many areas where huge benefits can be found. They can all help to create more stable markets in the long term. And, they are all areas that I hope to discuss more with my fellow colleagues at the conference.

What does Euroclearable mean?

It is a term increasingly used for when a market adopts the legal, regulatory and other market standards that allow Euroclear to provide the same ease of access and degree of asset protection expected by international investors in any well-established market (e.g. Mexico and Peru).

euroclear