South African Reserve Bank

Closing remarks by Mr Daniel Mminele, Deputy Governor, South African Reserve Bank, at the 2013 Emerging Markets Dialogue on OTC Derivatives Reform, Johannesburg, 12-13 September 2013

1. Introduction

Good afternoon ladies and gentlemen. Thank you to the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Federal Ministry for Economic Cooperation and Development (BMZ) for inviting me to deliver the concluding remarks at the end of the two-day workshop of the Emerging Markets Dialogue on Over-The-Counter (OTC) Derivatives Reform, as well as for sponsoring this very important and topical event. I would also like to extend my thanks to our co-hosts, namely the National Treasury, in particular Deputy Minister Nene, and the Financial Services Board through Deputy Chief Executive Officer Bert Chanetsa. Last but certainly not least, I would like to thank the many staff members from all organisations co-hosting, who have contributed to the organization and success of this event.

Unfortunately, I have not had the benefit of listening to the various panel discussions and what I am sure were thought-provoking comments made by the various speakers over the last two days. Therefore, to avoid the risk of repeating what others may have said, I thought I would take a broad approach to the subject and offer some thoughts on the lessons that emerging market and developing economies can draw from the financial market regulatory reform process that has taken place over the past 5 years and how this can be applied to the OTC derivative reform process.

2. The headwinds were strong and remain strong

In Washington in 2008, the G-20 committed to fundamentally reform the regulation of the global financial system. The objective was to correct the regulatory failures that in part contributed to the global financial crisis, and to build a safer, more resilient financial system that could better serve the needs of the real economy. This global financial regulatory reform process began, and continues to be undertaken, in a period which is characterized by subdued economic growth, elevated unemployment levels, and volatile financial markets. In these extraordinary circumstances, policy makers have resorted to non-conventional measures both on the monetary and fiscal policy side and have tried to balance the competing short-term need to promote economic growth and create jobs with the longer term imperative to construct stable financial systems and achieve sustainable growth paths and healthy public finances. Despite this complex and challenging environment, G-20 countries have managed to make significant progress towards meeting their 2008 commitments.

Governor Mark Carney, in his capacity as the Chair of the Financial Stability Board (FSB) noted in an open letter to the G-20 dated 2 September 2013, that major progress has been made in building stronger financial institutions and more robust markets through substantially strengthened international standards. However, work on this front is far from complete.

Governor Carney stated that the G-20's objective of strong, sustainable and balanced growth requires an open, integrated and efficient global financial system. Clearly, one aspect of such a financial system is efficient and stable derivative markets that work for market participants in both the advanced economies and in emerging market and developing economies. This workshop is therefore of direct relevance to the global financial reform agenda.

Our challenge is to make sure that the reforms that are proposed at the global level for derivatives markets do not have adverse unintended consequences for emerging markets, and can be implemented in ways that ensure we remain active and attractive participants in global financial markets. A "one-size-fits-all" set of regulations without consideration of timing and scope may not be appropriate and reflective of where some economies are in terms of their financial market development. In order to meet these challenges, it is important that we understand the implications of the currently proposed OTC derivative reforms and can act, collectively, in the appropriate global, regional and domestic forums to mitigate any adverse consequences and maximize their benefits for markets and our domestic and international stakeholders. The growing presence of emerging market and developing economies in the global regulatory reform process provides an opportunity to shape the outcomes of the process.

3. Expanded role and responsibilities of emerging markets and developing economies

The international financial standard-setting bodies were historically dominated by the advanced economies. Today, emerging market and developing countries collectively account for about half of the global economy, it therefore is no longer feasible that they be excluded from important decisions that are made, which affect the management of the global economy and regulatory reform. As a result, following the crisis that started in 2007 the leaders of the G-20 agreed to expand the membership of the international standard-setting bodies and to strengthen the mandate and capabilities of the Financial Stability Forum, which was subsequently re-established as the FSB. This has helped these bodies to become more representative and will strengthen their role in developing and encouraging their members to implement policies in the interest of a stable global financial system.

In order to enhance its effectiveness, the FSB, represented at this workshop by Mr Rupert Thorne, Deputy Secretary General, is now seeking to incorporate a broader range of participants into its activities. For example, it has created Regional Consultative Groups that bring an additional 70 countries into the policy discussion. In a similar vein, emerging and developing countries are represented on the committees of the Basel Committee on Banking Supervision, and the Basel Consultative Group was established to facilitate a broad dialogue with non-member countries.

But there is no such thing as a free lunch. Those of us from emerging market and developing countries, who participate in the international standard-setting bodies, where financial regulatory reforms are discussed, now have an obligation to use our voice in these forums in a responsible manner. This means that we need to be actively engaged in meetings, be ready to take constructive positions on the various items on the reform agenda, including on OTC derivative reforms, which positions are supported by solid research, and convincing arguments. We also need to pay due regard to the concerns of both those emerging markets and developing countries that are participants in these meetings, and those that are not at the table.

We have previously witnessed how putting forward well-reasoned positions can have positive outcomes. For example, South Africa, together with other emerging market and developing economies helped to bring about refinements to certain elements of the Liquidity Coverage Ratio (LCR) under the Basel III framework. Based on research, including our participation in the Financial Stability Board's "*Study of effect of regulatory reforms on emerging market and developing economies",* which clearly demonstrated the potential adverse, albeit unintended, consequences of some elements of the proposed LCR, the standard-setting bodies recognized that the LCR required refinement. The revised LCR standards were announced in early 2013 and they accommodate the concerns of jurisdictions, like ours, which have a shortage of adequate high quality liquid assets as defined. Similarly, the combined efforts of affected countries, including emerging markets, are making progress in reviewing the Net Stable Funding Ratio (NSFR) proposals, and ensuring that any unintended adverse impacts are limited. The proposed OTC derivative reforms, particularly the role of central counterparties (CCPs) in derivative markets, is another topic that runs the risk of undermining one of the core objectives of the rule-making bodies, namely global parity.

Fortunately, the FSB appreciates that international regulatory standards can have unintended consequences. In this regard, I want to express my appreciation to the FSB for its most recent report on the unintended consequences of the international regulatory reforms and for their stated intention to continue monitoring the reform implementation process so that it can identify these unintended consequences.

It seems to me that we can draw two lessons from these examples. First, now that emerging markets have representation and are active participants in the international regulatory process, it is possible for us to influence this process. To do so, we need to cooperate with each other. We need to collaborate and coordinate our efforts in all available regional and global forums to make our case for balanced outcomes on the existing items on the reform agenda. Fortunately, there are many opportunities for such collaboration. They include, in addition to the G-20, the FSB and the international standard- setting bodies and their outreach efforts, regional groupings such as the SADC Committee for Central Bank Governors (CCBG), the Committee of African Banking Supervisors (CABS) and the Association of African Central Banks (AACB), and emerging market and developing country groupings like the BRICS and the G-24.

Second, as I have just indicated, we can only become effective participants in these forums if we base our efforts on solid research and careful preparation. This will enable us to identify those issues which have the potential to generate significant benefits or to inflict significant adverse impacts on our financial systems and countries. It will also help us to marshal our arguments and resources to effectively advocate for our positions on these issues.

It is clear that workshops like the one we are now concluding are important precisely because they help us with regard to both the issues I have just mentioned. By allowing us to exchange ideas and experiences on key issues on the international regulatory reform agenda, gatherings such as this one help us identify our common concerns and the ways in which we can collaborate to address them. They also help us deepen our knowledge and understanding of these issues, and broaden our network of contacts.

As I draw towards the conclusion of my remarks, let me briefly come back to OTC derivatives specifically.

4. *Quo vadis* on OTC derivatives reforms for emerging markets?

In Governor Carney's open letter to the G-20, the FSB highlighted the structural deficiencies in the lightly regulated OTC derivatives market, and the systemic risk this poses for the wider financial markets and the real economy. I do not propose to go into detail on the current efforts to address these deficiencies because I know that you have discussed them during the past two days. However, I wish to emphasize that although these regulatory reforms have been primarily designed to respond to the needs and dynamics of the derivative markets in advanced economies, regulators in emerging market and developing economies will be required to comply with these rules if they wish their markets to be accepted as part of the global financial system. While this is understandable and we fully intend to comply with the final rules, it is important to recognize the challenges present in our own markets.

One benefit of forums like this one is that it enables participants from emerging markets to meet and exchange views on OTC derivative reforms. This is important for a number of reasons. Firstly, while, it serves the global interest to achieve standardization in derivative transactions' contracting, pricing and documentation, it is also important to make sure that the interests of all stakeholders are adequately addressed in the ways these transactions are standardized. If emerging market and developing countries do not have opportunities to discuss these matters, with appropriate attention to all the technical details, amongst themselves, this is less likely to happen. Second, we all have a vested interest in derivative transactions that are transparent and as safe as possible. In principle, this can be most easily achieved through standardized transactions executed through central counterparties and reporting to trade repositories. In practice, however, not all countries derivative markets are big enough to support the necessary market infrastructures. As such, they would require more flexible approaches to OTC derivatives than is the case in the larger advanced economies. This suggests that there is a need to collaborate on developing regulatory proposals that are appropriate to our conditions. If we do so, and can undertake the research and preparations needed to develop the arguments to support our preferred approach, I am confident, based on past experience, they will receive a fair hearing and where appropriate, will be incorporated into the current international proposals for regulating OTC derivative markets.

5. Conclusion

In many ways, financial markets in emerging market and developing countries are still developing. The benefits that derivative markets offer and the challenges they bring, therefore, are not necessarily comparable with the benefits and challenges applicable to advanced countries. In addition, the benefits and challenges associated with derivative markets in specific countries may differ due to our markets' differing stages of development. For this reason it is valuable for us to be able to share views and exchange experiences and to learn from each other. I hope that you all felt that this workshop has contributed to this objective and that it will help all of us in our efforts to promote transparent, predictable and safe derivatives markets that meet all our needs.

Thank you.