

United States Commodity Futures Trading Commission



Exchange-Traded Derivatives In Developing Capital Markets



1999

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**EXCHANGE-TRADED DERIVATIVES
IN DEVELOPING CAPITAL MARKETS
1999**

Foreword

The Commodity Futures Trading Commission's (CFTC) 1999 Report on Exchange-Traded Derivatives in Developing Capital Markets examines selected data on the economies, regulatory regimes and exchanges of 24 countries located on five different continents. The countries range in population from 1.9 million to 2.1 billion and in *per capita* GDP from less than \$300 to over \$16,000. Developing countries can support thriving markets with world volume among that of the largest mature exchanges. They also may maintain programs in agricultural and other physical derivatives to promote developing commodity cash markets and to provide central delivery systems for commodities traded in those markets.

Increasingly, market participants and risk managers are demanding improved information on how markets are regulated and, in particular, how the regulations are implemented in practice. This report is intended to provide market users with a starting place for evaluating new and established markets in developing economies and a status report on certain jurisdictions where development of derivatives exchanges is in process. It is not intended as a substitute for an informed due diligence review of such markets.

This year, with the turmoil in the world financial markets, there has been increased focus on the timeliness and availability of both macro- and micro-economic and structural information. It is my hope that this report will be a useful resource that increases the transparency and accessibility of some of that information.

Sincerely yours,

William J. Rainer
Chairman, CFTC

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Summary of Derivatives Markets Surveyed

ACTIVE MARKETS

Argentina
Brazil
China
Hungary
Israel
Malaysia
Poland
Portugal
South Africa
South Korea
Taiwan
Turkey

PLANNED OR UNOPENED MARKETS

Bulgaria (2000 launch)
Czech Republic
Greece (undetermined date)
India (undetermined date)
Mexico
Thailand (early planning stage)

FORMERLY ACTIVE MARKETS

Chile (re-launch planned at undetermined date)
Guatemala (re-launch planned at undetermined date)
*Philippines (suspended)**
Venezuela (suspended due to low market activity)
Russia (re-launch planned at undetermined date)

CONTRIBUTORS WITHOUT ACTIVE OR PLANNED MARKETS

Costa Rica
*Indonesia**
Peru
*Slovakia**
Slovenia

* See Appendix IV: 1997 Survey Results for Selected Jurisdictions *infra* p. 253.

Selection Criteria

The countries surveyed to develop this report on the Exchange-Traded Derivatives in Developing Capital Markets possess one or more of the following characteristics: (1) they meet the World Bank's definition of a "low or middle-income economy," (2) they have a newly established derivatives market, or (3) they are in the process of establishing such a market. All of the countries either have demonstrated success, or have taken steps to increase the potential for success, in their exchange-traded derivatives market, and each exhibits one or more of the factors ultimately necessary to have a successful derivatives market such as an active underlying cash market and/or an appropriate regulatory regime.

As examples of the types of markets included: a number of the countries studied, such as Brazil and South Africa, have developed derivatives exchanges that are among the largest in the world in terms of volume; Portugal has recently established a functional derivatives market; Mexico and Chile are two examples of countries with highly developed stock markets with active trading that are still working on developing derivatives markets. The European Union member countries included in the survey are required to adopt agreed elements of regulatory infrastructure, increasing the likelihood that newly established derivatives markets will prosper. Common to all of the countries included is that they either have fostered, or are moving to foster, the economic and regulatory and structural capacity to support or to continue a niche- and possibly a broader-based derivatives market.

Responses should permit users of this survey to determine whether and how to complete a more in-depth economic and regulatory review of a specific market. It should also permit a study of markets by age. Some, such as Argentina, have very old and established markets; some, such as South Korea, have very new high volume markets. Others, like Greece and India, have markets in the planning stages, or markets that have failed to attract liquidity or, like Russia's MICEX, have encountered other problems and are being redesigned as a result.

The report contains information which may indicate either 1997 or 1998 data, as provided by the respondents. In all cases, the information reflects the latest data provided by survey participants to requests for updates.

All entries are self-reported and reviewed by the responding agency or exchange. Inconsistencies with other reports or sources of information may therefore exist. The report should not be considered a legal analysis of the underlying law or referred to as an opinion of the CFTC or CFTC staff.

*Report Participants**

Argentina	National Securities and Exchange Commission
Brazil	Comissão de Valores Mobiliários
Bulgaria	Securities and Stock Exchanges Commission
Chile	Superintendencia de Valores y Seguros
China	China Securities Regulatory Commission
Costa Rica	Superintendencia General de Valores
Czech Republic	Czech Securities Commission
Greece**	Capital Market Commission
Guatemala	Banco de Guatemala
Hungary	Hungarian Banking and Capital Market Supervision
India	Securities and Exchange Board of India
Israel	Israel Securities Authority
Malaysia	Securities Commission
Mexico	Comision Nacional Bancaria y de Valores
Peru	Comision Nacional Supervisora de Empresas y Valores
Poland	Polish Securities and Exchange Commission
Portugal**	Comissão do Mercado de Valores Mobiliários
Russia	Moscow Interbank Currency Exchange
Slovenia	Securities Market Agency
South Africa	Financial Services Board
South Korea	Financial Supervisory Commission
Taiwan	Securities and Finance Commission
Thailand	Securities and Exchange Commission
Turkey	Capital Market Board
Venezuela	Comisión Nacional de Valores

* Exchanges or Regulatory Agencies who responded by March 31, 1999 (updated to May 31, 1999) to the Office of International Affairs' request for information. OIA has also received information from other organizations, including the World Bank Group, to complete this report.

** Member of the European Union.

Terminology Guide

A number of specific terms, phrases, and abbreviations are used throughout the report. The following is a partial list of definitions or explanations of those terms to better assist readers in understanding the data.

Debt Ratings: Credit ratings of a government's debt instruments as determined by Moody's and Standard & Poor's (in the report, Moody's is listed first).

- Moody's Investor Services has developed the following rating system for debt: Aaa = Prime, Maximum Safety; Aa1-Aa3 = High Grade, High Quality; A1-A3 = Upper Medium Grade; Baa1-Baa3 = Lower Medium Grade; Ba1-Ba3 = Non-Investment Grade, Speculative; Caa = Substantial Risk; Ca = Extremely Speculative; C = May be in Default.
- Standard & Poor's has developed the following rating system for sovereign debt issuers: AAA = extremely strong capacity to meet its financial commitments; AA = very strong capacity; A = strong capacity; BBB = adequate capacity; BB, B, CCC, and CC = regarded as having significant speculative characteristics (BB indicates the least degree of speculation and CC the highest).

Double Taxation: Double taxation occurs when an entity is taxed both domestically and in a foreign country on income generated in that foreign country. A double taxation treaty prevents this from occurring.

Dual Trading: Dual trading is either (1) a floor broker executing customer orders and orders for his own account or for an account in which he has an interest in the same contract or (2) a brokerage firm carrying customer accounts and, also on the same day, trading, or permitting its employees to trade, for accounts in which either has a proprietary interest.

Exchanges: Unless otherwise noted, references to exchanges are references to those exchanges that trade futures contracts. Some of the exchanges may trade futures exclusively, and some may also trade equities, other cash products, and/or options.

Government Debt Market: These figures encompass all publicly-held debt securities issued by the government.

N/A: No answer provided.

Not applicable: This is used for responses in which the question does not apply to the studied country (*i.e.*, trading volume questions for countries that do not have active trading).

Sales Practice Standards: These standards are designed to promote fair treatment for customers in their dealings with futures/derivatives salespeople. Typically, the standards apply to order executions, sales representations, and disclosures.

Total External Debt: These figures encompass loans from private banks, bilateral loans from individual governments, and loans from multilateral lending institutions such as the International Monetary Fund, the World Bank, and the regional development banks such as the Inter-American Development Bank.

Note: The use of “{ }” brackets indicates information supplied by the Office of International Affairs from different sources, including Standard & Poor’s Ratings Services: Sovereign Ratings (<www.standardandpoors.com/ratings/sovereigns/>), and Moody’s Investors Services (<www.moodys.com/repldata/ratings/ratsov.htm>) for sovereign debt rating information, and *The World Factbook 1998* published by the United States Central Intelligence Agency (<www.cia.gov/cia/publications/factbook/>) for population and industrial sector information.

Macroeconomic figures in “()” brackets represent a deficit or contraction.