Bhutan Conference on Green Bond Issuance

Session 2 & 3: Regulatory and Policy Framework to Facilitate the Development of Capital Markets in Bhutan

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Session 2:
Institutional Framework & Regulatory Aspects of Capital Market Development

The Benefit of Policy Transparency for Capital Market

"Country Transparency and the Global Transmission of Financial Shocks", Luis Brandao-Marques, Gaston Gelos, and Natalia Melgar, IMF Working Paper , July 2013.

- ✓ IMF examined survey data* for 27 countries.
- ✓ Evaluated the role of transparency of country policies on financial benefits in the capital markets.
- ✓ The findings suggest that more opaque assets and less transparent policy result in larger negative reaction to a given level of increase in uncertainty (negative signals).
- ✓ In other words, capital market with lower transparency in policy would amplify negative effects of shocks (uncertainty).

* The annual Global Competitiveness Report produced by the World Economic Forum.

Source: https://www.imf.org/~/media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/wp/2013/_wp13156.ashx

The Effect of Transparency of Government Policies on Bond Spreads for 27 Countries

Transparency of Government Policies significantly amplify the reaction of bond yields to uncertainty shocks. A country in the bottom 10% of transparency is expected to experience, over the period of one week, a 1.7% higher increase in spreads in response to a 10% increase in the VIX, compared to a country in the highest 10%.

External shocks increase market volatility (VIX) by 10%

Poor transparency (i.e. bottom 10%) countries (PTC)

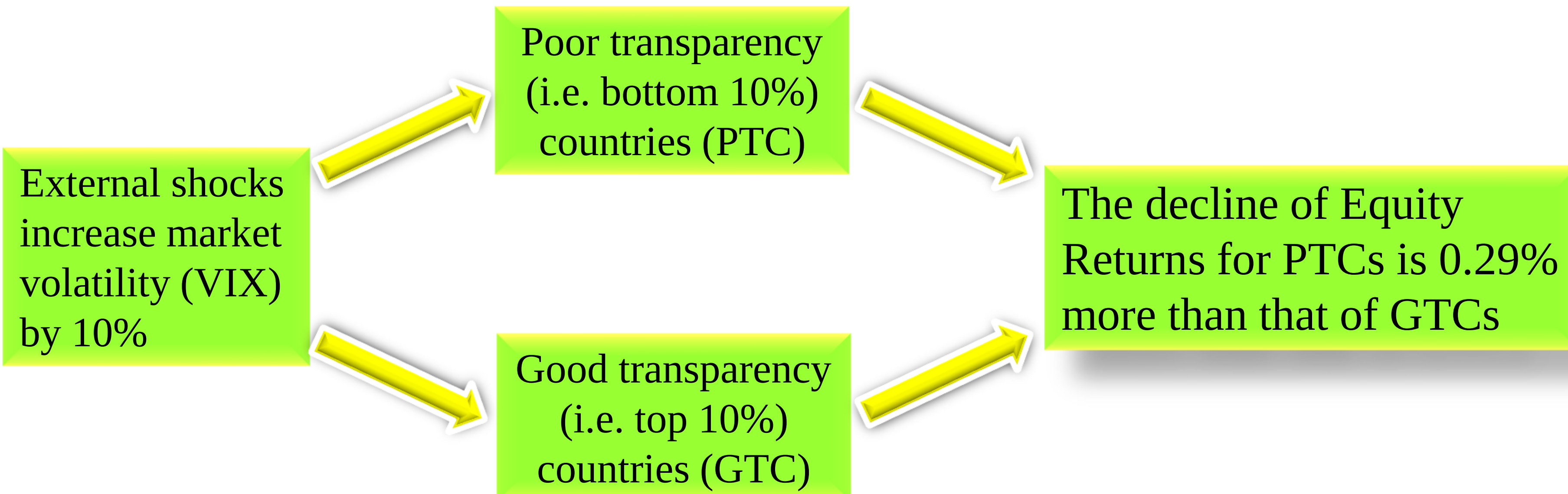
Good transparency (i.e. top 10%) countries (GTC)

Bond spreads of PTCs increase by 1.7% more than that of GTCs

Source: https://www.imf.org/~/media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/wp/2013/_wp13156.ashx

The Effect of Transparency of Government Policies and Equity Returns for 27 Countries

Stock returns tend to react less strongly to VIX shocks in more transparent emerging markets. The decline in equity returns induced by a 10% increase in the VIX, over the period of one week, is 0.29% higher for countries in the 90th percentile of Transparency of Government Policies index (i.e. the top 10% most opaque countries) than for those on the 10th percentile. This is about double the weekly change in the MSCI countries.



Source: https://www.imf.org/~/media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/wp/2013/_wp13156.ashx

Conclusion

The effects of country policy transparency are quantitatively important, lending support to government of emerging markets to enhance policy transparency.

Source: https://www.imf.org/~/media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/wp/2013/_wp13156.ashx

Appendix: List of Countries used in the Sample

Argentina	Brazil	Chile	China	Colombia	Czech Republic	Egypt
Hong Kong SAR	Hungary	India	Indonesia	Israel	Jordan	Korea
Malaysia	Mexico	Morocco	Pakistan	Peru	Philippines	Poland
Russian Federation	Singapore	South Africa	Taiwan Province of China	Thailand	Turkey	

Definition of Transparency of Government Policies (TGP): This variable has the same source and methodology as the Corporate Opacity indicator*. The respondents were asked to assess the validity of the statement "Firms in your country are usually informed clearly and transparently by the government on changes in policies and regulations affecting your industry" with a score from 1 (=never informed) to 7 (always fully and clearly informed). We use as Transparency of Government Policies the mean score per country as reported by the Global Competitiveness Reports from 2002-2003 to 2011-2012.

*Corporate Opacity (Corpop). The annual Global Competitiveness Report produced by the World Economic Forum includes results from surveys about the level of financial disclosure and availability of information about companies. The survey measures the perceptions of over 3,000 executives about the country in which they operate and covers 53 countries. The respondents were asked to assess the validity of the statement "The level of financial disclosure required is extensive and detailed" with a score from 1 (=strongly disagree) to 7 (strongly agree). Based on these results, we construct a summary variable called Corporate Opacity.

Source: https://www.imf.org/~/media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/wp/2013/_wp13156.ashx

Session 3:
Desirable Policy Framework to Facilitate the Development of Capital Markets

Regulatory Philosophy to Improve Market Transparency through Information Disclosure: the Case of Hong Kong

The Hong Kong Securities and Futures Commission (SFC) adopts the following principles in regulating the securities markets in Hong Kong:

Stay firm but fair

- ✓ regulate in a firm, fair, transparent and accountable manner
- ✓ take firm and decisive enforcement action against misconduct
- ✓ oversee firms proactively to facilitate investor protection and market development

Focus on risk

- ✓ focus attention and resources on higher risk areas
- ✓ encourage industry participants to develop a robust compliance culture
- ✓ adopt a principles-based approach to set requirements at a higher level, then articulated by detailed codes, guidelines and rules

Form partnerships

- ✓ facilitate investor protection and market development by building strong relationships with firms being regulated
- ✓ form partnerships and cooperate with other regulators, intermediaries and investors

Source: https://www.sfc.hk/web/EN/about-the-sfc/our-role/how-we-function/regulatory-philosophy.html

Translate Principles into Action

The actions taken reflect the principles behind the regulatory philosophy:

- ✓ Firmness
- ✓ Fairness
- ✓ Consistency
- ✓ Negotiate, not dictate

Regulatory Objectives

- ✓ to maintain and promote a fair, efficient, competitive, transparent and orderly securities and futures industry;
- ✓ to help the public understand the works of the securities industry;
- ✓ to provide protection for the investing public;
- ✓ to minimise crime and misconduct in the industry;
- ✓ to reduce systemic risks in the industry; and
- ✓ to assist the Government in maintaining Hong Kong's financial stability.

Sources:
https://www.sfc.hk/web/EN/about-the-sfc/our-role/how-we-function/regulatory-philosophy.html
https://www.sfc.hk/web/EN/about-the-sfc/our-role/regulatory-objectives.html

"Accountability and Transparency in the Age of Global Markets"
(Andrew Sheng, Chairman, Securities and Futures Commission, May 1999)

Transparency, Accountability and Disclosure in the Market

To maintain integrity and to function fairly and efficiently, the market needs

1) high quality information
2) timely disclosures, and
3) efficient access to such information

Rationale

- ✓ Investors need this information to make investment decisions and to trade.
- ✓ When relevant information is not properly disclosed in a timely fashion, or when misleading information is given, this will destroy market fairness and integrity.
- ✓ Often the market is a ***better judge*** than the regulator with respect to new innovations and products. A market that enjoys ready access to high quality information can ***properly assess the risks and returns of new products*** and innovations.

Source: https://sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=99PR46

Supporting Network

Transparency requires not only the disclosure of information, but also a whole host of other supporting benchmark standards including:

- ✓ good accounting standards (to accurately assess value and risks)
- ✓ clear law and regulations fairly and consistently administered (to provide certainty and protection of property rights), and
- ✓ good corporate governance (to ensure proper conduct and safeguard investors' interests)

Source: https://sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=99PR46

~Thank you~