



36th Bürgenstock Meeting

AFM Emerging Exchanges Panel:

- Kristian Schach Möller, CEO, Agricultural Commodity Exchange for Africa (ACE) Malawi;
- Muammer Cakir, Head, Derivatives Market - VIOP, Borsa Istanbul, Turkey;
- Chris Sturgess, Director, Commodities, JSE, South Africa;
- Ismael Caram, Deputy CEO, Rosario Futures Exchange, Argentina;
- Patrick Kenny, SVP Client Relationships, CQG
- Louisjan Bonthuys, STT

Chris Sturgess as moderator of the panel raised the following topics for discussion: **growth rate and potential in the regions, connectivity, education and clearing/CCPs, future game changers. A number of questions were also addressed from the audience.**

Growth Rate

Growth rate in Argentina is led by the growing demand of China for food. In Africa average growth rate is about 5%, the rate is somewhat lower in Malawi. There are huge potentials on the continent with a very few operating exchanges, with lot of initiatives for structured markets but few are on operational level.

Turkey is a dynamic country at the doorsteps of Europe. It has good connections to Africa via Turkish Airlines which flies more countries in Africa than any other airline in the world. Additionally, the Turkish economy is not dependent on commodities and net oil importer so it is well positioned among the EM countries. After the new capital law introduced, Borsa Istanbul was established through the merger of three exchanges, today it offers trading and clearing in equities, derivatives, fixed income & repo and precious metals. Increased foreign investors participation, currently hovering around 30% in derivatives market, is expected with a new trading technology to be introduced very soon.

Connectivity

Louisjan spoke of the changes in the traditional way of growth in Africa with special emphasis on changing connectivity. In Tanzania for example the mobile phone network operator put a system in place which allows people with mobile phones to

access the exchange on the commodity side. It provides a platform for fair prices and means lesser costs for connectivity and changing customer base.

Patrick spoke of Africa as a great opportunity for markets and spoke of CQG's possible role in bringing customer base to these markets.

Kristian agreed that mobile technology is transforming Africa and that it is a key driver of transformation. Farmers can receive money and information even in rural conditions.

Louisjan added that smart phones can add to liquidity. He also spoke briefly of the role of the sub currency system called M-Pesa which enables settlement of transactions without the need for physical currency. Everything is facilitated via mobile phone.

In Argentina mobile applications play a crucial role in the distribution of trading data but not in trading.

Muammer added that mobile connectivity for trading is commonly used in Turkey and emphasized education is much more important than connectivity.

Education

In the case of Turkey, Muammer spoke of the unhealthy ratio of retail trading (64%) in overall derivative volumes. It is much more speculation than hedging which can be very harmful for the markets in the long run. Thus, the exchange is trying to educate investors and corporates about hedging techniques and establish hedging culture. Additionally, Borsa Istanbul is focused on physically delivered commodity derivatives for that purpose.

Kristian spoke of the role of education on government level. In Africa trade between neighbouring countries is declining, there is strong fragmentation and at this stage there are absolute no potentials for a panafrikan exchange. So, there is a growing need for the education for governments to put in place healthy policies to avoid export or import bans. He added that significant resources of the exchange go on training.

In Argentina training programs are needed in order to attract young traders in order to boost the distribution agents. The goal of the exchange is to get hundreds of new traders.

Patrick mentioned the ongoing education programs in the US on options. He reminded the audience that at CME the only pit which is full is the options pit.

In Turkey the exchange is running simulation programs in order to teach traders how to use futures and options in a simulated environment.

Clearing and CCPs

In Argentina there is direct clearing for certain clients. As a result of a recent market reform the exchange controls the clearing, CCP is integrated into the exchange, 80% of shares belong to the exchange.

In Turkey, Takasbank is the CCP for derivatives, next years they will become CCP for spot markets. The system in place is very safe; there is total client account segregation with prefunding and robust risk management. However, all these sound risk management practices make trading a bit more costly in Turkish derivatives market.

In terms of commodities vs financials, Borsa Istanbul is a primarily financial market place with the predominance of equity index and FX contracts. In order to boost commodities trade, a new wheat contract with physical delivery via licensed warehouses will be launched.

In the case of ROFEX financial futures exceed commodity trade. Although in 2014 one million tons of soya bean went through ROFEX there are serious logistical barriers in harvest time such as access to warehouses, too much truck traffic etc.

In Malawi warehouse are crucial parts of the infrastructure. Warehouses are typically owned by rural associations. Private sector warehouses were hesitant to give access in the initial stage but commercial storage is now available.

Louisjan added that STT is there to assist JSE with the warehouses thus warehouse certificates are now a tradeable commodity.

Game Changers

When asking panelists of future game changers, Ismael spoke of the need for finding the best niche on the market to further build liquidity, liquidity and more liquidity. He also spoke of the role of connectivity. Louisjan mentioned market surveillance. While in Malawi the game changers might be lobbying government on policies, regional integration, linking exchanges for creating common ground and promoting the warehouse receipt system. In Turkey, there are three areas of opportunity. First, it is essential to increase the institutional flow to peer standards by increasing the foreign investor's ratio. Second is the FX markets which is quadrupled in volume in the last 2 years but there is a much more room for growth. Third is commodities and energy with physical delivery via licensed warehousing system. In the case of CQG FX and equities seem a new field for the company.

Over and above the following themes, a number of questions we raised from the audience and addressed by the various panelists. The panel discussion provided the AFM members a great opportunity to further profile their exchanges or companies within the audience of SFOA participants.

Chris ended the discussion by thanking each of the participants for the contribution.