WORLD FEDERATION OF EXCHANGES

WFE Response to SARB on the designation of market infrastructures as systemically important

30th June 2025

Response

The World Federation of Exchanges (WFE) welcomes the opportunity to comment on the discussion paper published by the Prudential Authority of the South African Reserve Bank (SARB) in April 2025 on the designation of market infrastructures (MIs), exchanges, and payment systems as systemically important. We appreciate the SARB's commitment to transparency and consultation in developing its financial stability framework.

General Comments

The WFE agrees that financial stability is a paramount objective for central banks and supervisors. We support proportionate frameworks for identifying entities whose failure could pose a threat to the financial system. However, we caution against conflating operational criticality with systemic financial risk - a distinction that is fundamental to sound regulation.

While market infrastructures including exchanges are nationally significant, not all critical institutions transmit systemic risk, which is a concept grounded in a collapse of the credit system, such as what happened in 2008 after the demise of Lehman Brothers. The designation of an exchange as a systemically important financial institution (SIFI) must therefore be grounded in the nature of its risk profile, not simply its size or centrality.

Scope of Application

We respectfully submit that exchanges do not interact with the flow of credit in the financial system in the same manner as CCPs or, in a mechanical way, payment systems. Unlike in the banking sector, we are not aware of an instance in global economic history where an exchange alone has been the root cause of a series of other defaults among financial market participants. As outlined in the WFE's 2023 position paper "*Financing the Future*"[1] "Banking regulation rightly attempts to address run risk", but "what is misguided and therefore damaging is to assume that exactly the same type of risk is present in equity capital markets, requiring the same type of rules". Exchanges do not mutualise counterparty exposures, guarantee transactions, or act as principal in settlement. Consequently:

- The failure of an exchange would constitute an operational disruption, not a transmission channel for credit or liquidity contagion.
- Such events can and have been managed through existing operational resilience, business continuity, and recovery arrangements, without the need for formal resolution or extraordinary intervention.

With this in mind, we strongly advocate against the designation of an exchange as "systemic" based on its national significance or lack of substitutability. We note that there has been no global precedent for SIFI designation of an exchange or trade repository (TR). The US Financial Stability Oversight Council (FSOC), for example, has never designated a trading venue as systemically important, despite having the power to do so. Nor has the UK, Australia, the EU, or any other jurisdictions that are of a similar size and market structure of South Africa, where the exchange plays an important, central role, but not a "systemic" one.

Concerns with the Proposed Framework

The inclusion of exchanges in a systemic designation regime raises several concerns:

- The quantitative indicators (e.g. market cap, volume, number of listings) can create perverse incentives for an exchange not to grow, and risk overstating systemic relevance if not contextualised within the institution's actual risk transmission role.
- The proposed weighting to size may disproportionately affect exchanges relative to their systemic impact.
- Applying SIFI-related capital or resolution planning requirements to exchanges could create significant compliance burdens without corresponding financial stability benefits.

[1] World Federation of Exchanges, *"Financing The Future"*, 2023, https://www.world-exchanges.org/our-work/articles/financing-the-future

We support the SARB's recognition that systemic designation requires the exercise of judgement beyond metrics. However, we urge caution in applying discretionary powers to institutions not traditionally treated as systemic, especially when this is not consistent with international best practice.

International Consistency

With this in mind, we encourage SARB to align its framework with international precedent and the CPMI-IOSCO PFMI, which do not include exchanges within the core definition of financial market infrastructures (FMIs). Exchanges are rightly subject to regulatory oversight, but their inclusion in a systemic designation framework risks blurring global regulatory categories, making cross-border supervision and equivalence more difficult.

Conclusion

We commend SARB for its commitment to transparency and welcome further dialogue on this issue. We strongly encourage a proportionate, risk-based approach that preserves the credibility of systemic designation while ensuring the resilience of all financial market infrastructures, and a recognition that, while an exchange may be important, this does not mean that it is systemic.

Background

Established in 1961, the World Federation of Exchanges (WFE) is the global industry association for exchanges and central counterparties (CCPs). Headquartered in London, it represents over 250 market infrastructure providers, including standalone CCPs that are not part of exchange groups. Of our members, 37% are in Asia-Pacific, 43% in EMEA, and 20% in the Americas.

The WFE's 87 member CCPs and clearing services collectively ensure that risk takers post some $1.1 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges, together with other exchanges feeding into our database, are home to over 49,000 listed companies, and the market capitalisation of these entities is over $116.58 trillion; around $155 trillion (EOB) in trading annually passes through WFE members (at end 2024).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back 49 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators, and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair, and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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