Capital Market Development in ASEAN

Purpose: Information
Submitted by: Asian Development Bank
Capital Market Development in ASEAN

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Overview

I. Financial Sector Development: Data & Statistics
II. Capital Market Regulatory and Institutional Reforms
III. ASEAN Integration: Model and Cross Border Portfolio Investment
IV. ASEAN Initiatives (ACMF) & ASEAN Corporate Governance Scorecard
V. Asian Bond Market Initiative (ABMI)
VI. ADB Financial Sector Programs
VII. Conclusion
Financial Sector Development Helps Reduce Poverty through three Channels

- Financial markets support sustained economic growth
- Inclusiveness of the poor into financial markets (savings, pensions etc.)
- Financial system stability
Financial markets are hierarchically ordered

- Step 1: A well-functioning money market
- Step 2: A deep and liquid government bond market
- Step 3: The corporate debt market which helps diversify intermediation.
- Mutual reinforcement: Money markets and government bond markets gain liquidity from each other.

Capital Market Development

Four Tier Financial Sector Development in ASEAN

I. Singapore and Malaysia with more advanced capital markets and regulatory framework

II. Thailand with increasing reliance on the corporate bond market for financing investment

III. Indonesia, Philippines and Viet Nam heavy reliance on banking sector for financing investment

IV. Cambodia, Lao PDR and Myanmar developing a sound banking system
Financial Sector Data: Banking

Bank Credit to GDP

Source: ADB. Key Indicators for Asia and the Pacific
Financial Sector Data: Banking

Lending Rates

Source: ADB. Key Indicators for Asia and the Pacific
Financial Sector Data: Bond Market
Comparative size relative to GDP

Source: ADB. Asia Bonds on Line
Financial Sector Data: Bond Market

Bond Market Liquidity

Source: ADB. Asia Bonds on Line Annual Liquidity Survey
## ASEAN EQUITY MARKETS 2012

### Different Stages of Development

- Among Southeast Asian countries, big differences exist in terms of market cap, market cap as % of GDP and number of listed companies.

<table>
<thead>
<tr>
<th>Country</th>
<th>Domestic Market Cap ($ Billion)</th>
<th>Market Cap % of GDP</th>
<th>Number of Listed Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Viet Nam</td>
<td>37.3</td>
<td>26.3%</td>
<td>704</td>
</tr>
<tr>
<td>Indonesia</td>
<td>428.2</td>
<td>48.8%</td>
<td>459</td>
</tr>
<tr>
<td>Malaysia</td>
<td>466.6</td>
<td>153.7%</td>
<td>920</td>
</tr>
<tr>
<td>Philippines</td>
<td>229.3</td>
<td>91.6%</td>
<td>254</td>
</tr>
<tr>
<td>Singapore</td>
<td>765.1</td>
<td>278.5%</td>
<td>776</td>
</tr>
<tr>
<td>Thailand</td>
<td>389.8</td>
<td>106.6%</td>
<td>558</td>
</tr>
</tbody>
</table>

ASEAN Equity Markets 2010-2013
Domestic Market Cap ($ Million)

Source: World Federation of Exchanges, 2010-2013
Models of Integration

**Single Undertaking**
Create enabling conditions for access based primarily on mutual recognition. Supported by some essential harmonization and a greater freedom for capital movements.

**Variable Geometry**
Focus on harmonization of conditions for cross border access in terms of laws, and regulations. Supported by mutual recognition in any sectors that are not subject to harmonization & by liberalization measures.

**Critical Mass**
Cross Border Portfolio Investment has been increasing...

**Intra ASEAN Investment and Growth Percentage**

- **2006**: $13.27 Billion, 3.75%
- **2007**: $19.95 Billion, 50.34%
- **2008**: $12.40 Billion, -37.84%
- **2009**: $16.79 Billion, 35.4%
- **2010**: $24.83 Billion, 47.89%

Source: CPIS Data, IMF website 2006 - 2010
ASEAN Capital Market Integration

- **Process:** ASEAN Economic Community 2015. Financial sector integration (including capital market) identified as one of the key pillars of integration.

- **Who:** ASEAN Capital Market Forum (ACMF) established in 2009 consisting of Chairs of the region’s securities regulators that reports directly to the ASEAN Finance Ministers Meeting (AFMM).

- **Strategy:** ASEAN Regional Capital Market Integration Plan 2015 approved by the AFMM.
# ASEAN Implementation Plan
## Broad Themes & Key Initiatives

<table>
<thead>
<tr>
<th>Broad themes</th>
<th>Key initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Creating an enabling environment for regional integration</td>
<td>• Harmonization and mutual recognition framework;</td>
</tr>
<tr>
<td>2) Creating the market infrastructure and regionally focused products and</td>
<td>• ASEAN exchange alliance and governance framework;</td>
</tr>
<tr>
<td>intermediaries</td>
<td>• Promoting new products and building ASEAN as an asset class;</td>
</tr>
<tr>
<td>3) Strengthening the implementation process</td>
<td>• Strengthening bond markets</td>
</tr>
<tr>
<td></td>
<td>• Aligning domestic capital market development plans to support regional</td>
</tr>
<tr>
<td></td>
<td>integration;</td>
</tr>
<tr>
<td></td>
<td>• Reinforcing ASEAN working processes</td>
</tr>
</tbody>
</table>

Source: ACMF’s website
ASEAN Corporate Governance (CG) Ranking Methodology/Scorecard

Phase 1
- Develop ASEAN CG ranking methodology based on OECD CG principles

Phase 2
- Validation of methodology with OECD

Phase 3
- Implementation of CG Ranking and use to brand ASEAN as an asset class
ASEAN+3 policy makers launched the ABMI in the aftermath of the 1997/98 Asian Financial Crisis to improve the resilience of the regional financial system by promoting the development of the local currency bond markets as an alternative to short-term foreign currency loans.

Source: ACMF’s website
Finance Ministers and Central Bank Governors Meeting

Deputy Ministers and Deputy Governors Meeting

CMIM*
Regional safety net

* Chiang Mai Initiative Multilateralization

ABMI
Asian Bond Market Initiative

TF 1
(Supply)

TF 2
(Demand)

TF 3
(Regulation)

TF 4
(Infra.)

• Bond markets of ASEAN+2 have grown 17 times since 1997 financial crisis, now amounting to $8.2 tril (Nov 2014), cf. Japan $9.8 tril.
• Rule of 60%; i.e., 60% of GDP; 60% is PRC; and 60% is government bonds.
• Yet, the development is uneven across the members and the level of regional integration is limited.
• Efforts are continuing to assist less developed markets and to create an integrated regional market to enhance financial resiliency, finance long-term investments in local currencies and support regional economic integration.

TF 1 (Supply)

• Credit Guarantee & Investment Facility (CGIF)
• Infrastructure finance schemes

TF 2 (Demand)

• Developing government bond markets
• Building investor base and enhancing investment climate
• www.asianbondsonline
• Asian Bond Monitor

TF 3 (Regulation)

• ASEAN+3 Bond Market Forum (ABMF)
• SME access to bond market
• ASEAN+3 SRO Working Group

TF 4 (Infra.)

• Regional settlement intermediary (Cross-border Settlement infrastructure Forum, CSIF)
• Regional credit rating system Working Group
• Financial education
Established in Sep 2010 as a platform to foster harmonization of market practices and regulations.

Key Achievements:

✧ The ASEAN+3 Bond Market Guide (2012)
  – Comprehensive information source to narrow information gaps.

✧ Study on Bond Transaction Flows and Settlement Infrastructures (Phase 2, 2013)
  – Identification of cross-border transaction flows to promote straight through processing (STP)

✧ ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) (2014)
  – A common regional bond issuance program for intra-regional issuance and investments. AMBIF promotes establishment of professional bond markets with similar regulations and requirements across participating countries.
  – AMBIF Single Submission Form and Implementation Guidelines for selected markets, with possible pilot issuance, is expected this year.
Cross-border Settlement Infrastructure Forum (CSIF)

- Established in 2013 to facilitate the establishment of the Regional Settlement Intermediary (RSI).
  - Central banks and national CSDs nominated by CBs are the members

- CSD-RTGS Linkages as a preferred RSI model
  - Network among national CSDs and real time gross settlement (RTGS) systems operated by Central Banks.
  - Enable local bonds to be settled in Delivery versus Payment (DVP) via central bank money, which ensures safety of settlement and is compliant with the international standards as well as being cost-efficient.
  - Members are currently discussing steps in which to build linkages, e.g., sequentially or simultaneously.

**Implementation phases**

- **Implementation phase 1**
  - 2015-2016
  - Developing a central hub and connecting each CSD and RTGS system with the hub

- **Implementation phase 2**
  - 2017-2018
  - Defining detailed user requirements, design, coding, and testing

- **Implementation phase 3**
  - 2019-2020
  - Starting production operation of CSD-RTGS Linkages

- Integration phase
  - 2020-

**Develop standard message flows and items**

- Specifying essential user requirements
ADB Support to Financial Sector Development in ASEAN

- Anchor to our goals of economic growth and poverty development
  - National programmatic and policy based lending products
  - National technical assistance grants
  - Knowledge products
  - Regional capital market integration technical assistance

**Indonesia**

Preparing with the Indonesian government the Financial Market Development and Integration Program, which is designed to support the newly created integrated financial sector body Otoritas Jasa Keuangan (OJK), promote financial sector development and financial inclusion.
In the Philippines
Preparing the proposed Encouraging Investment through Capital Market Reforms (EICMR) Program, which aims to increase the availability of long-term finance by addressing fundamental constraints to bond market development, diversifying the investor base and encouraging integration.

In Viet Nam
Financial Sector Deepening Program supports the Government to develop a money market and a capital market, with a focus on government debt as the basic building blocks of effective macroeconomic management and financial sector development.
In Cambodia
Preparing with the Cambodian government, a Financial Sector Program to support the development of a nascent financial sector with a focus on sound banking system and financial inclusion.
ADB has supported ASEAN capital market regional integration since 2005 including supporting the framework for the Implementation Plan.

- 2005: TA for Supporting Enhanced Cooperation Amongst Southeast Asian Equity Markets
- 2009: Approval of Implementation Plan by ASEAN Finance Ministers Meeting in Pattaya
- 2010 - March 2014: TA to support specific initiatives in the Implementation Plan

ADB’s Technical Assistance Supporting ASEAN Regional Capital Market Integration
Achievements of ADB-ACMF Partnership and ADB’s Value Add

Achievements

i. development & implementation of the ASEAN Corporate Governance Scorecard in 2011 - 2014 including publication the ASEAN CG Report in 2013 and 2014 as ADB-ASEAN knowledge product

ii. Draft guidelines on ASEAN dispute resolution and enforcement options

iii. capacity building of ASEAN regulators (CLMV) through regulator-regulator partnership and secondment program

iv. support for ASEAN Exchanges (website and branding): http://www.aseanexchanges.org/

ADB’s Value Add

(i) Coordinate different stakeholders and play role of honest broker

(ii) Leverage with international organizations eg OECD, IOSCO…

(iii) International credibility
THANK YOU