Enhancing Cooperation & Regional Integration of ASEAN Equity Markets

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Presented by:
Mohd Sani Ismail
Financial Sector Specialist
Public Management, Finance and Trade Division (SEPF)
Southeast Asia Department
Asian Development Bank

Overview

I. Regional Integration: Definition & Models

II. ASEAN Equity Markets 2007-2010

III. ASEAN Capital Market Forum (ACMF) Implementation Plan

IV. ADB’s Support & Priority Areas

V. Conclusion and Food For Thought
**What does Regional Capital Market Integration Mean?**

<table>
<thead>
<tr>
<th>Investor</th>
<th>Intermediaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can buy and sell securities in any stock market without restriction.</td>
<td>Can offer their services throughout the region without restriction.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regulators</th>
<th>Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperation ranging from information sharing to joint enforcement.</td>
<td>Can raise capital anywhere in the region &amp; cheaper financing given lower transaction costs.</td>
</tr>
</tbody>
</table>

**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**:
ASEAN EQUITY MARKETS 2010
Different Stages of Development

- Among Southeast Asian countries, big differences exist in terms of market cap, total value share of trading & turnover velocity

<table>
<thead>
<tr>
<th></th>
<th>Domestic Market Cap ($ Million)</th>
<th>Total Value of Share Trading ($ Million)</th>
<th>Turnover Velocity (domestic)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>360,388.1</td>
<td>103,676.9</td>
<td>36.5%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>408,689.1</td>
<td>111,821.4</td>
<td>32.1%</td>
</tr>
<tr>
<td>Philippines</td>
<td>157,320.5</td>
<td>21,642.3</td>
<td>19.2%</td>
</tr>
<tr>
<td>Singapore</td>
<td>647,226.4</td>
<td>288,390.2</td>
<td>53.3%</td>
</tr>
<tr>
<td>Thailand</td>
<td>277,731.7</td>
<td>211,673</td>
<td>94.5%</td>
</tr>
</tbody>
</table>

Source: World Federation of Exchanges, 2010

ASEAN Equity Markets 2007-2010
Domestic Market Cap ($ Million)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bursa Malaysia</td>
<td>325,290.3</td>
<td>189,086.6</td>
<td>286,157.3</td>
<td>408,689.1</td>
</tr>
<tr>
<td>Indonesia SE</td>
<td>211,693.0</td>
<td>98,760.6</td>
<td>214,941.5</td>
<td>360,388.1</td>
</tr>
<tr>
<td>Philippine SE</td>
<td>103,006.9</td>
<td>52,030.6</td>
<td>86,349.4</td>
<td>157,320.5</td>
</tr>
<tr>
<td>Singapore Exchange</td>
<td>539,176.6</td>
<td>264,974.4</td>
<td>481,246.7</td>
<td>647,226.4</td>
</tr>
<tr>
<td>Thailand SE</td>
<td>197,129.4</td>
<td>103,128.2</td>
<td>176,956.1</td>
<td>277,731.7</td>
</tr>
</tbody>
</table>

Source: World Federation of Exchanges, 2007 - 2010
ASEAN Equity Markets 2007-2010
Total Number of Listed Companies

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<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tr>
<td>Bursa Malaysia</td>
<td>986</td>
<td>976</td>
<td>959</td>
<td>956</td>
</tr>
<tr>
<td>Indonesia SE</td>
<td>383</td>
<td>396</td>
<td>398</td>
<td>420</td>
</tr>
<tr>
<td>Philippines SE</td>
<td>244</td>
<td>246</td>
<td>248</td>
<td>253</td>
</tr>
<tr>
<td>Singapore Exchange</td>
<td>762</td>
<td>767</td>
<td>773</td>
<td>778</td>
</tr>
<tr>
<td>Thailand SE</td>
<td>523</td>
<td>525</td>
<td>535</td>
<td>541</td>
</tr>
</tbody>
</table>

Source: World Federation of Exchanges, 2007 - 2010

How do We Measure Regional (Equity) Market Integration?

Measurement

Quantitative
- Bilateral portfolio intra ASEAN holdings
- Comovement of stock prices

Qualitative
- eg. harmonized disclosure standards
- cross border dispute settlement
- mutual recognition

Provided all other variables are constant, decrease in transaction costs between two financial markets increases demand for assets
Intra ASEAN Portfolio Investment has been increasing...

But intra ASEAN equity investment as % of total equity investment has not been improving much

The low intra ASEAN equity investment reflects the same integration dynamics with intra East Asian investments which is also relatively lower compared to total investments. This suggests that more needs to be done for ASEAN regional capital market integration.
**Intra ASEAN-3 investment as engine**

**Investment of Intra ASEAN and ASEAN 3**

- Increased by $4.4 Billion
- Increased by $8 Billion
- Increased by $2.3 Billion, 52% of $4.4 Billion
- Increased by $7.6 Billion

**Implementation Plan**

**Broad Themes & Key Initiatives**

<table>
<thead>
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<th>Broad themes</th>
<th>Key Initiatives</th>
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<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 intermediaries</td>
<td>• ASEAN exchange alliance and governance framework;</td>
</tr>
<tr>
<td></td>
<td>• Promoting new products and building ASEAN as an asset class;</td>
</tr>
<tr>
<td></td>
<td>• Strengthening bond markets;</td>
</tr>
<tr>
<td>3) Strengthening the implementation process</td>
<td>• Aligning domestic capital market development plans to support regional integration;</td>
</tr>
<tr>
<td></td>
<td>• Reinforcing ASEAN working processes</td>
</tr>
</tbody>
</table>

Source: ACMAF’s website
Based on ACMF Implementation Plan to promote capital market integration in ASEAN – Working Group Approach

ACMF Implementation Plan to promote the development of an integrated capital market to achieve the objectives of the AEC Blueprint

**WORKING GROUPS**
- Mutual recognition of prospectus and facilitating supporting marketing services involved in cross border offerings: WG A - MAS
- Cross border enforcement & dispute resolution: WG C (BAPEPAM) & WGDREM

Creating an enabling environment for regional integration

Creating the infrastructure and regionally focused products and intermediaries

Strengthening the implementation process

- Expedited review for secondary listing, ASEAN corporate governance ranking/scorecard WG D – SC, Malaysia
- Mutual recognition of CIS for cross border offering: WG B – Thai SEC

- Reinforce ASEAN working processes: ASEC
- Monitor and facilitate the implementation of these measures, work with relevant authorities to ensure coordination of the ASEAN financial market integration

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**Working Mechanism for the Implementation Plan**

**Tier I**
ASEAN Finance Ministers (AFM)

**Tier II**
A Group of Experts (GOE) (as identified by ACMF)

**Tier III: Technical Group (TG)**
ADB Team & Consultants
- ADB Staff
- International Consultants
- National Experts

ACMF Working Groups
ADB’s Support for regional capital market integration

- 2001: TA for strengthening Asian Financial Market
- 2005: TA for supporting enhanced cooperation among Southeast Asian Equity Markets – Output: ASEAN Strategic Alliance Framework
- [9 April 2009: Approval of Implementation Plan by ASEAN Finance Ministers Meeting in Pattaya.]

ADB’s Latest Technical Assistance (2010-2013)
Promoting and Interlinked ASEAN Capital Market

- Approval by President of ADB in August 2010
- Total amount approved USD2.00 million - co-finance by:
  - Investment Climate Facilitation Fund, Japan of USD1.5 million, and
  - Republic of Korea e-Asia and Knowledge Partnership Fund of USD0.5M
- Purpose: to support ACMF implement Implementation Plan 2015 and the ASEAN exchanges in rolling out the ASEAN Common Exchange Gateway which will be the basis of for an interlinked ASEAN capital market
- Include capacity building component for securities regulators particularly in Lao, Cambodia and Vietnam
Why ADB is interested in regional capital market integration

Benefits

Outcome:
- Freer flow of funds through cross border investments promotes economic growth in DMCs.
- ASEAN as a regional block provides market size in competing against other regional players.

Process:
- (i) learn from international best practices
- (ii) getting standards/practices upgraded through harmonization
- (iii) capacity building support
- (iv) building trust in the region, regional interest vs national interest
- (v) expedited capital market development

Outcome:
Freer flow of funds through cross border investments promotes economic growth in DMCs.

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Priority Areas under 2011 TA Support

ASEAN Corporate Governance Scorecard/Ranking for ASEAN PLCs

Cross Border Dispute Resolution & Enforcement Mechanism Framework

ACMF WG, ASEAN SEC & SWG

ASEAN Stock Exchange Linkage

Reinforcement of ASEAN Working Process
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 CG Scorecard: Aspirations by 2015

<table>
<thead>
<tr>
<th>Year</th>
<th>Top 30 Domestic List</th>
<th>Top 100 Domestic List</th>
<th>Top 300 Domestic List</th>
<th>All domestic PLCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>Top 50 (closed) for Ministers</td>
<td>Top 50 (Open) Regional List</td>
<td>Domestic ranking bodies to rank</td>
<td>Regional CG Oversight Committee</td>
</tr>
<tr>
<td>2013</td>
<td>CG Experts &amp; domestic ranking bodies to rank</td>
<td>Top 100 Regional list</td>
<td>Domestic ranking bodies to rank</td>
<td>Regional CG Oversight Committee</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td>Regional CG Oversight Committee</td>
</tr>
</tbody>
</table>
| 2015 | | | | Single ASEAN CG Standard ?

AEC
Cross Border Dispute Resolution & Enforcement Mechanism

HOST
Disputes between Investor Vs Intermediary / Issuer from Home Country

HOST
ADR: Award

HOME
Court: Recognition and Enforcement of Award / Judgment

Court: Judgment

Source: WGDREM presentation, January 2012

ASEAN Stock Exchange Linkage Initiative

Three plausible scenarios for Southeast Asian capital markets:
(1) Dwindling relevance; (2) “Cherry-picked” and absorbed in global market?; and (3) A new force in global markets.

- No collaboration or mostly symbolic move that do not lead to actual value creation
- Southeast Asia isolated in the global context

- Little cooperation within Southeast Asia
- European and US exchanges tie up over time with individual exchanges

- Common policy for capital markets development can be defined
- Southeast Asian exchange define an approach to integrate for mutual benefit

*TOMORROW
Dwindling relevance?

“Cherry picked” and absorbed in global market?

A new force in global markets?

*TODAY

* Source: McKinsey

22
Experience From Other Exchange Alliance: The NOREX Alliances of Nordic and Baltic exchanges

- The strategic alliance between the Nordic and Baltic exchanges is to create a common Nordic and Baltic Securities Market via the Alliance, through which the exchanges and market participants offer their services with fewest possible obstacles.
- First alliance to implement a common cross-border trading system with harmonized trading rules and membership requirements.
- Eight very disparate countries, eight different regulators, old-fashioned financial laws and regulations.
- Starting to feel competition from larger exchanges

*In 2009, Oslo Børs entered into a strategic partnership with the London Stock Exchange Group, and the NOREX Alliance came to an end.
Source: NASDAQ OMX and based on Strategic Working Group presentation, ACMF 2010

The NOREX Alliance brought significant liquidity growth, in particular in the small market

- Denmark joined in 1999
  - 2001-2005 Denmark increased turnover by 217%, while Sweden turnover increased by 21%.
- Iceland joined in 2000
  - 2000-2005 Iceland increased turnover by 470%, while Sweden turnover was unchanged.
- Norway joined in 2002
  - 2002-2005 Norway increased turnover by 220%, while Sweden increased turnover by 35%.
- Estonia joined in 2004
  - 2004-2005 Estonia increased turnover by 190%, while Sweden turnover increased by 9%.

*Trading value of the Copenhagen Stock Exchange is available from 2001.
Source: OMX Group; Bloomberg and presentation by Strategic Working Group, ACMF 2010
Trading linkage is expected to go live as follows: 3 exchanges by 2012 possibly 2-3 more by 2013

**Objective: Brand ASEAN as an asset class**

Save for 2008, intra-regional equity investment has been growing although intra ASEAN investment as a percentage of total investment has dropped with a rebound in 2010 driven largely by ASEAN-3. Further growth depend on tighter integration (horizontally across countries and vertically across sectors)

The integration process is established with the Implementation Plan as the compass. Next step is implementation of activities based on agreed timeline

Achievements such as the harmonizing disclosure standards (ASEAN plus standards) is a good start, the challenge ahead is to remove the plusses and to progress with mutual recognition.

Some issues such as tax and legal enforcement for investor protection are outside of ACMF’s mandate, need support from relevant authorities.

Financial integration and trade integration are complimentary processes. Trade integration can be a stabilizing factor that reduces the likelihood of a financial crisis that can be increased by financial integration.
THANK YOU