

## Enhancing Cooperation & Regional Integration of ASEAN Equity Markets

OECD-ADB 12<sup>th</sup> Roundtable on  
Capital Market Reform in Asia  
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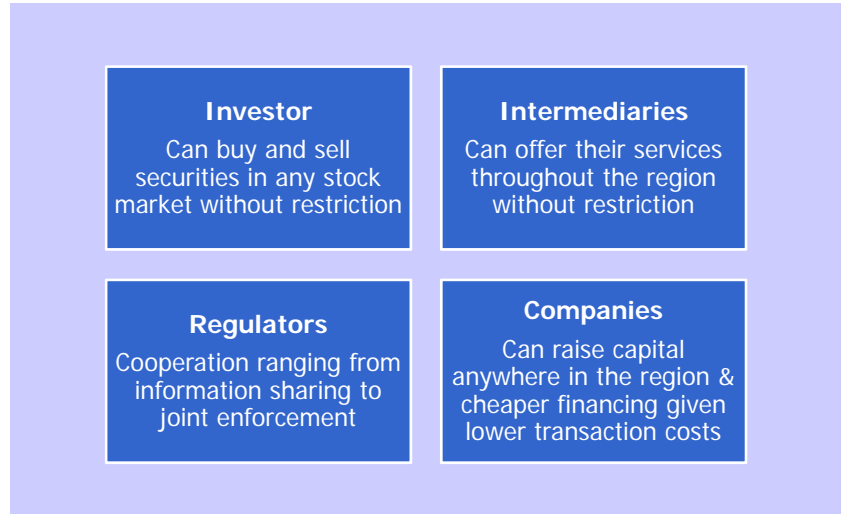


## Overview

- 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



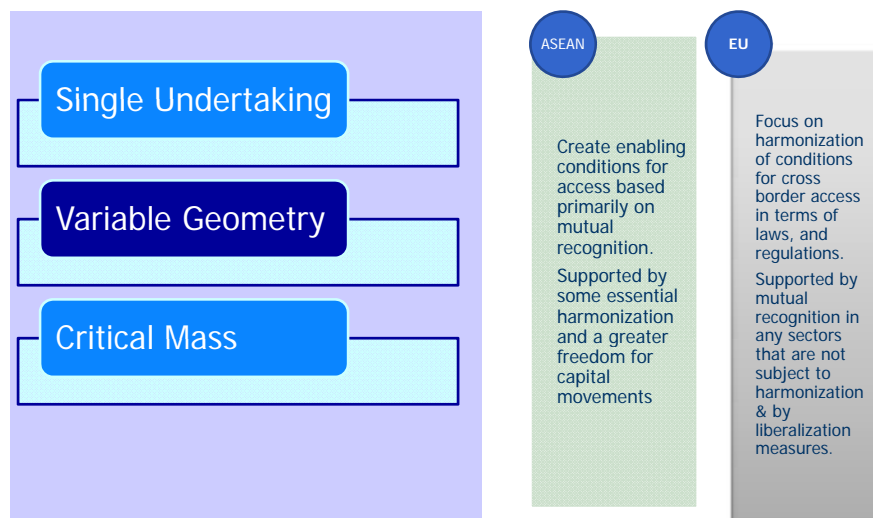
# What does Regional Capital Market Integration Mean?



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# Models of Integration



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## 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

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

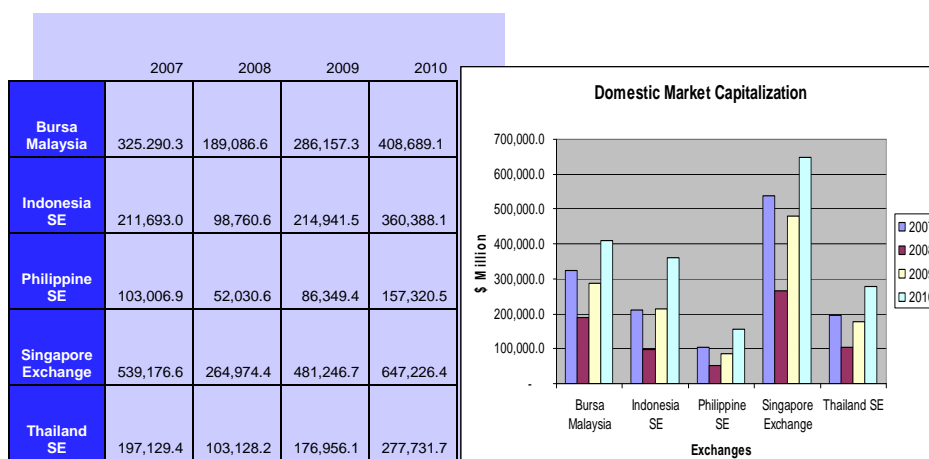
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Source: World Federation of Exchanges, 2010



## ASEAN Equity Markets 2007-2010

### Domestic Market Cap (\$ Million)



Source: World Federation of Exchanges, 2007 - 2010

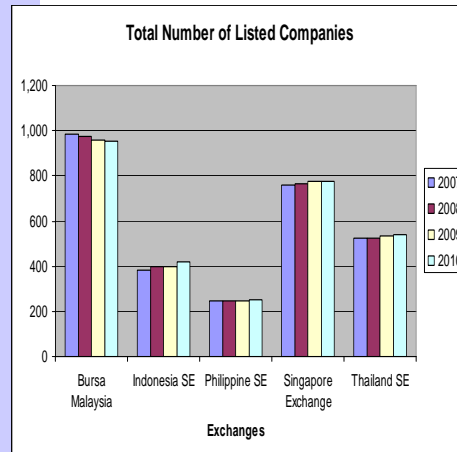
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## ASEAN Equity Markets 2007-2010

### Total Number of Listed Companies

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

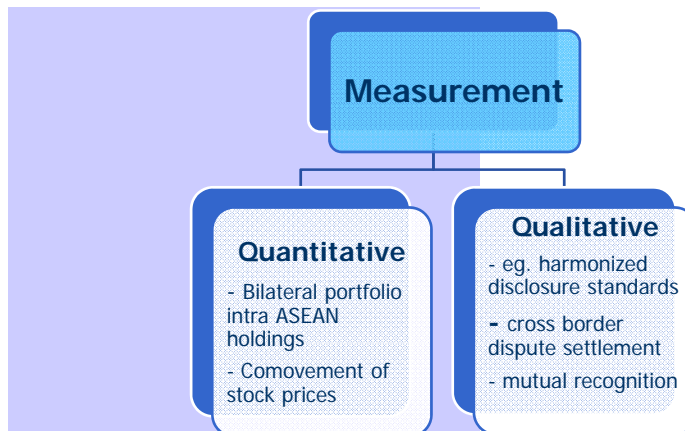


Source: World Federation of Exchanges, 2007 - 2010

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## How do We Measure Regional (Equity) Market Integration?

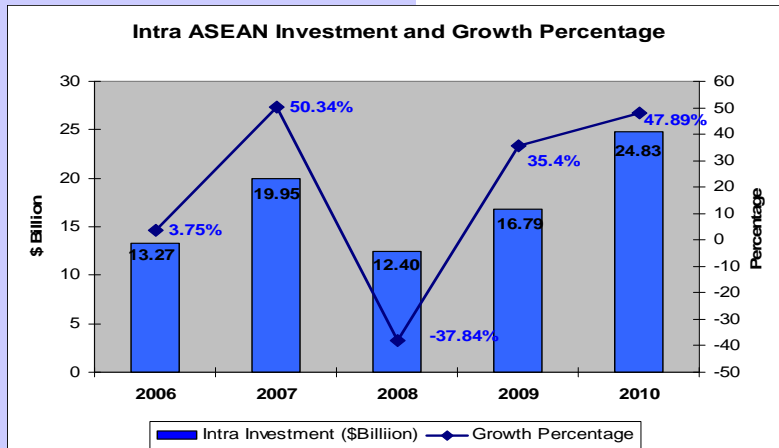


Provided all other variables are constant, decrease in transaction costs between two financial markets increases demand for assets

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## Intra ASEAN Portfolio Investment has been increasing...

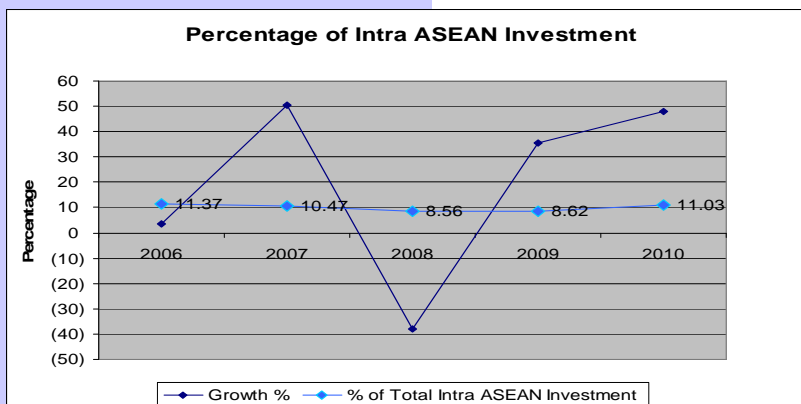


Source: CPIS Data, IMF website 2006 - 2010

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



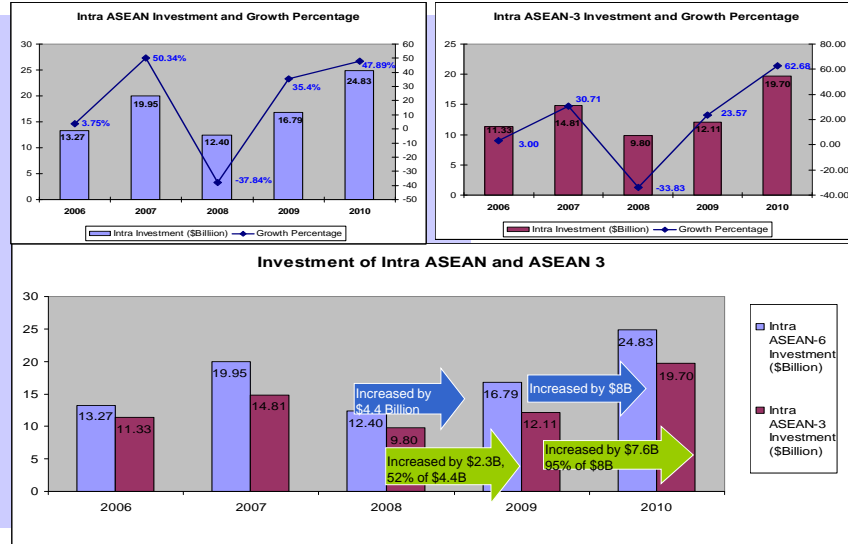
The low intra ASEAN equity investment reflects the same integration dynamics with intra East Asian investments which is also relatively lower compared to total investments. This suggests that more needs to be done for ASEAN regional capital market integration

Source: based on author's calculation using CPIS Data, IMF website 2006 - 2010

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## Intra ASEAN-3 investment as engine



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## Implementation Plan Broad Themes & Key Initiatives

Broad themes	Key initiatives
1) Creating an enabling environment for regional integration	<ul style="list-style-type: none"> <li>Harmonization and mutual recognition framework;</li> </ul>
2) Creating the market infrastructure and regionally focused products and intermediaries	<ul style="list-style-type: none"> <li>ASEAN exchange alliance and governance framework;</li> <li>Promoting new products and building ASEAN as an asset class;</li> <li>Strengthening bond markets</li> </ul>
3) Strengthening the implementation process	<ul style="list-style-type: none"> <li>Aligning domestic capital market development plans to support regional integration;</li> <li>Reinforcing ASEAN working processes</li> </ul>

Source: ACMF's website

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## 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

Creating an enabling environment for regional integration

### 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 the infrastructure and regionally focused products and intermediaries

- 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

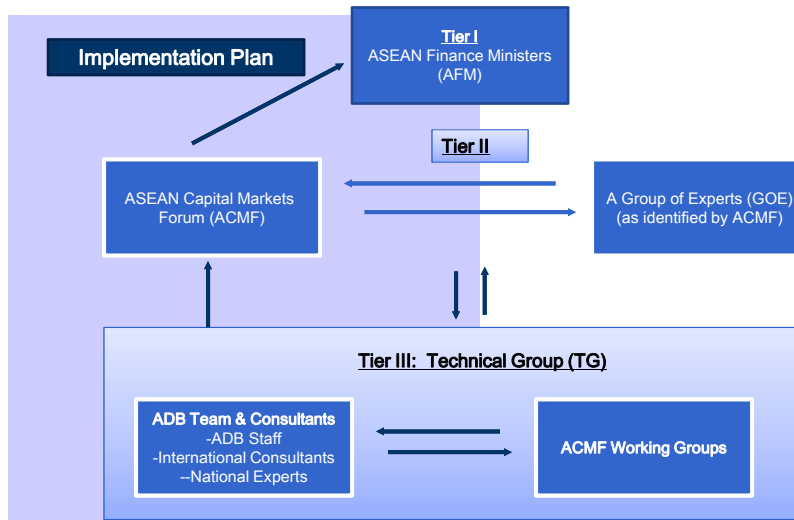
Strengthening the implementation process

- 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



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## 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
- 2008: TA for strengthening Southeast Asian Financial Market – Output: Framework on Implementation Plan 2015
- [9 April 2009: Approval of Implementation Plan by ASEAN Finance Ministers Meeting in Pattaya.]

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ADB

## ADB's Latest Technical Assistance (2010-2013)

Promoting and Interlinked ASEAN Capital Market

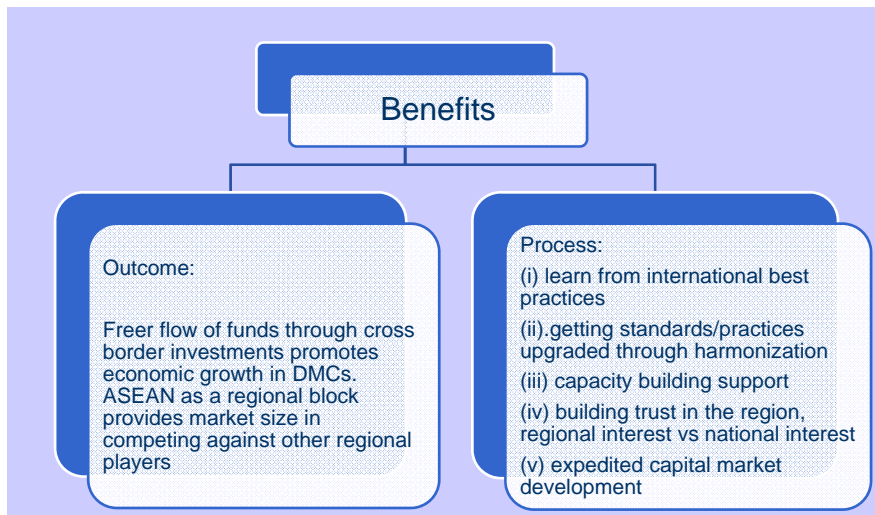
- ❑ Approval by President of ADB in August 2010
- ❑ Total amount approved USD2.00 million – co-finance by:
  - Investment Climate Facilitation Fund, Japan of USD1.5 million, and
  - Republic of Korea e-Asia and Knowledge Partnership Fund of USD0.5M
- ❑ Purpose: to support ACMF implement Implementation 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

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ADB



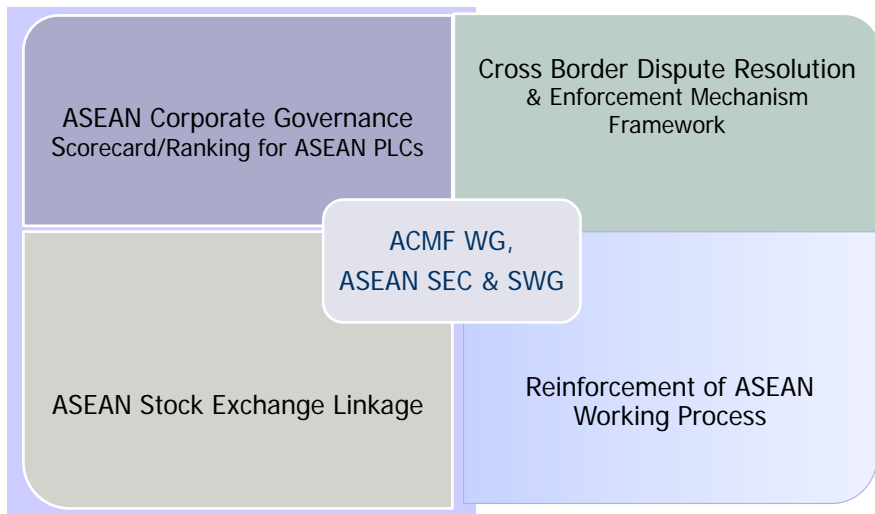
## Why ADB is interested in regional capital market integration



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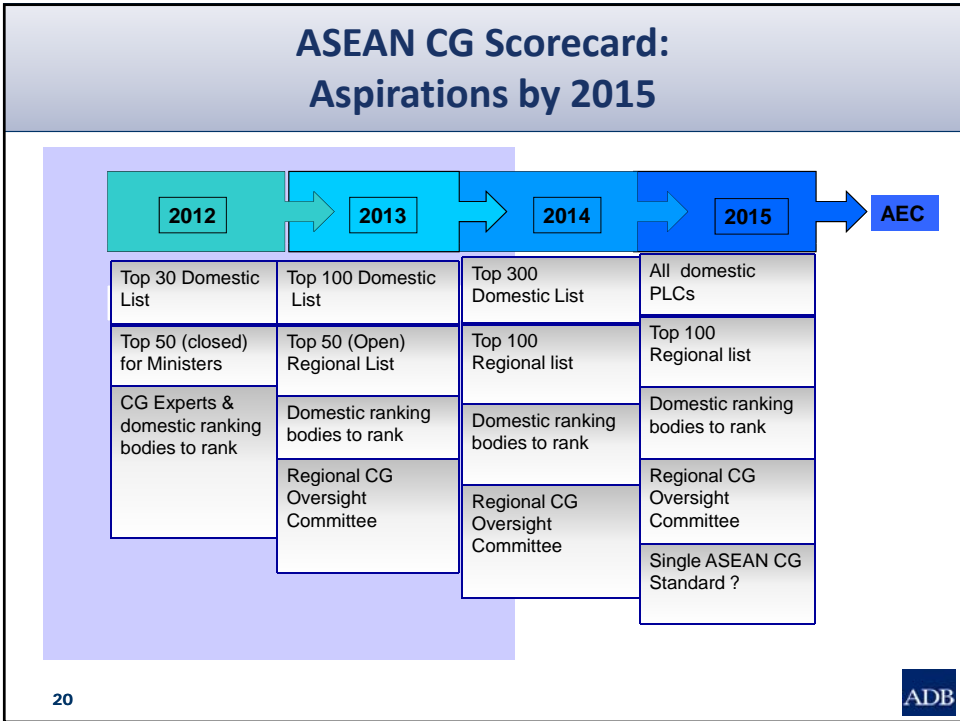
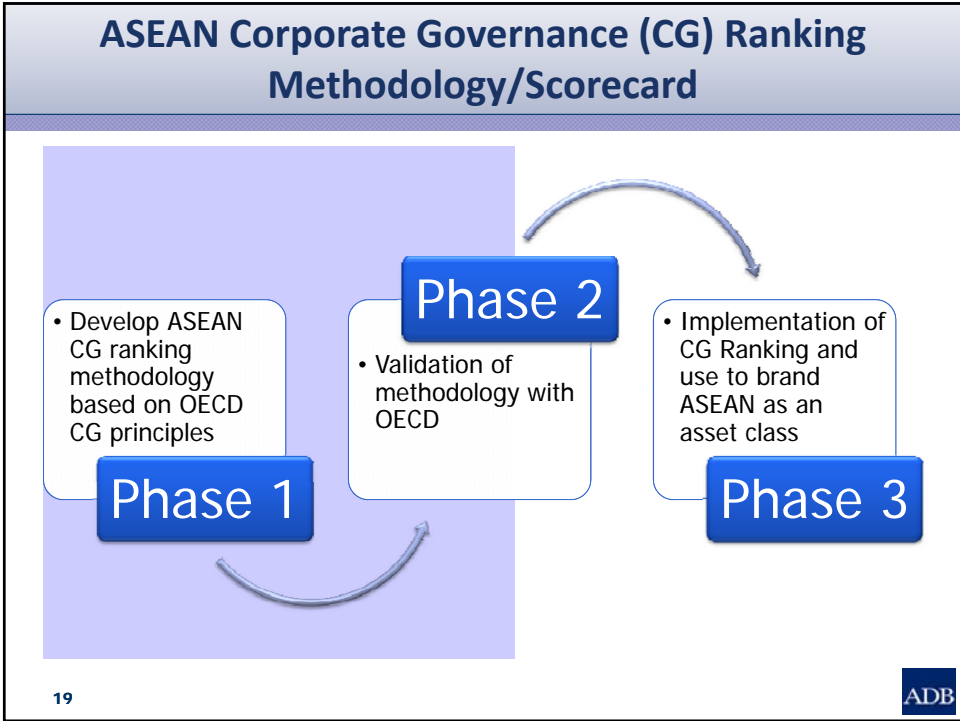


## Priority Areas under 2011 TA Support

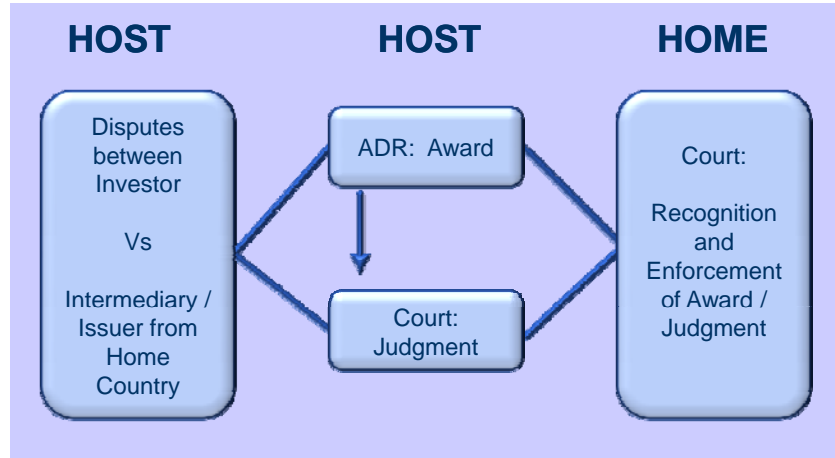


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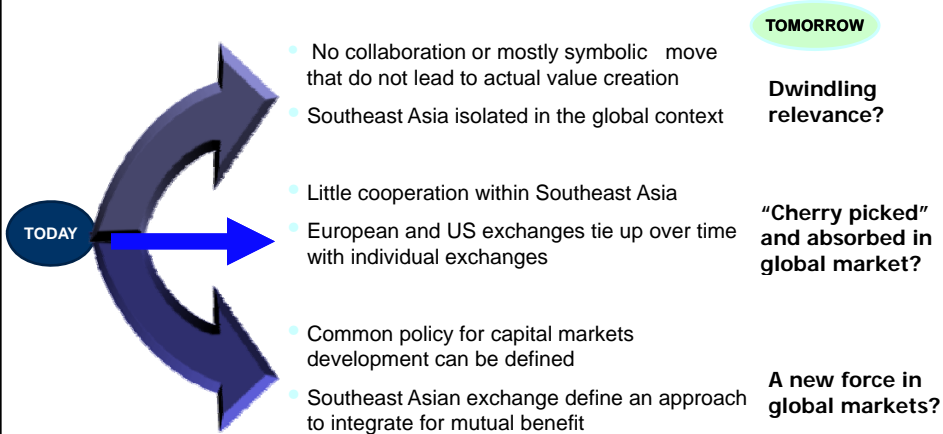
## Cross Border Dispute Resolution & Enforcement Mechanism



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.



\* Source: McKinsey

## 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

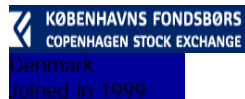


\*In 2009, Oslo Børs entered into a strategic partnership with the London Stock Exchange Group, and the NOREX Alliance came to an end.  
Source: NASDAQ OMX and based on Strategic Working Group presentation, ACMF 2010

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



2001-2005 Denmark increased turnover by 217%, while Sweden turnover increased by 21%.



2000-2005 Iceland increased turnover by 470%, while Sweden turnover was unchanged.



2002-2005 Norway increased turnover by 220%, while Sweden increased turnover by 35%.



2004-2005 Estonia increased turnover by 190%, while Sweden turnover increased by 9%.

\*Trading value of the Copenhagen Stock Exchange is available from 2001.

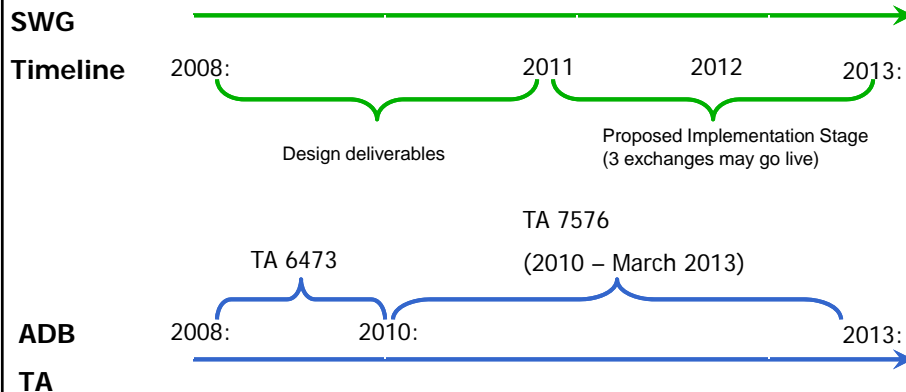
Source: OMX Group; Bloomberg and presentation by Strategic Working Group, ACMF 2010

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## ASEAN Exchanges Linkage Timeline & ADB TA

- 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

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## Conclusion & Food for Thought

- ❖ 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.

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**THANK YOU**