# SEC Conference 2019

**21 February 2019**

## "Digitalization of the Capital market"

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K. Tipsuda

When people think about cryptocurrency, they focus on the idea cryptocurrency as a new type of speculative investment rather than on the transformative impact of the technology on how transactions are conducted. From cryptocurrencies, other use cases of blockchain have emerged, including the tokenization of assets, which can then be transferred peer-to-peer without the need for intermediaries. Stable coin is one example, where money can be digitally represented on the blockchain. Even JP Morgan, whose CEO has always been critical of cryptocurrencies, now issues its own JPM coin to facilitate traditional financial transactions. For the capital market, tokenization of securities enables near real time settlement, thereby reducing trading costs. This creates both opportunities & challenges for the industry. If people can execute transaction without the help of intermediaries, then the roles of intermediaries have to change. However, people still need to have trust to conduct transactions, and to the extent that intermediaries can provide that trust, they can remain relevant.

In investment service, where AI has already been used by brokers and fund managers in investment decision for some time, tokenization has the potential to revolutionize investment subscription and settlement processes.

In the area of fund raising, Initial Coin Offerings emerged as a new method of fundraising, but now interest has shifted to Security Token Offering (STO), which combines the efficiency benefit from blockchain technology with the legal foundation and investor protection arrangements offered by securities laws.

K. Teeranun

An important use case of blockchain technology is to create representation of assets and securities. When blockchain is used to represented currency (stable coin), a new and more efficient payment system can be created. Putting that together with asset tokenization and you enable trade efficiency. In the capital market today, securities issuance in the primary market involves many intermediaries such as financial advisor (FA), auditor, underwriter, broker and registrar. In the future, if stable coin and securities tokenization take off, the registrar will still exist but become “invisible”. Ownership will be ingrained in the blockchain system and anyone can access ownership data without having to go back to registrar. Roles of intermediaries like brokers & underwriters will also change as securities can be allocated automatically using computerized instructions. However, FAs and auditors won’t be replaced by technology just yet as human logic is still required. For intermediaries, the advisory role will become more important. There will also be a need for tokenization platforms as demand for security tokens increase. We will need finance professionals who understand the technology side. As for KYC, since everything will be computerized, KYC services will be a big opportunity for the players as KYC info will not only be used in the context of capital market.

As for the secondary market, finalizing a trade today involves many parties having to reconcile information with one another. This mechanical side of transactions could be replaced completely by technology. SET may not be the sole exchange operator. There could be multiple exchanges which are able to reach out to investors directly and offer almost immediate settlement. The roles of intermediaries, again, will change significantly. For brokers, execution and settlement roles are likely to be redundant. Advisory will become a key service. Another role that’s not offered enough in the past is market making and this role should still exist. There will be a great expansion of tokenized asset classes, so custody of these assets will be important. And, finally, KYC processes will still be needed to enable electronic transactions. In the area of asset management, the introduction of blockchain & artificial intelligence will significantly change the shape of the industry. Now there are investment management, brokerage, and advisory roles, but the line between these roles will be blurred in the future. New players may enter the market and offer all three roles concurrently. Industry associations may have to collaborate & see how to adapt to the new world rather then defend their own business.

K. Tipsuda

What the SEC can do is to facilitate transition into the new world. A lot of Thai players are interested in providing new services in the digital space. The SEC must support and facilitate traditional players to shift to digital space, as well as open space for new players with new ideas to operate without unnecessary hurdles. The most important hurdles are the lack of legal clarity as to what is permitted and legitimate, and the restriction on competition imposed by the current laws and rules. Also, the SEC may need to rethink its regulatory philosophy if it wants to maintain confidence and investor protection in a less centralized world.

On legal clarity: (1) In some areas, such as E-KYC which is allowed but players are uncertain, the SEC can provide guidance to clarify what is and what isn't acceptable practice. (2) Some issues need to be solved at the level of the law, for instance, the need for paper certificate in share issuance. The SEC has made several attempts over the past few years to overcome this. In this case the solution finally came in the latest amendment to the SEA recently approved by the National Legislative Assembly (NLA) to allow completely scripless securities issuance through securities depositories. This applies to all licensed securities depositories and not just SET group. (3) It would be useful to have a clear regulatory framework on tokenization of existing asset (where the key regulatory concern is the integrity of the reserve mechanism of underlying assets) as well as for fundraising via token offering (where the key concern is transparency, disclosure and governance). In both cases the activities may fall under the securities law or digital assets law depending on the nature of the underlying assets or rights promised. With both laws, regulations will need to be amended to ensure balance between addressing risks and facilitating innovation.

On opening up the playing field: New players with capability in digital technology should have the opportunity to provide services under the SEA, while incumbent securities intermediaries that adopt new technology and business models should be able to expand into digital assets as well. There are some similarities in the functions performed by intermediaries under the two laws. For example, the ICO portal and the financial advisor both perform a screening function for offering. Tokenization platforms may seek to provide service under the designation of a securities depository. It is more complicated for digital exchanges, where the available options come with practical challenges. The electronic trading platform (ETP) regulation is still being crafted and discussed with Ministry of Finance and is only available as a sandbox. The securities trading center takes a specific legal form and needs to be established by at least 15 securities companies.

K. Teeranun

In a world of globalization and less centralized markets, people are free to do business and carry out transactions anywhere without being confined to the Thai market, and they will go elsewhere if there is no room to do so in Thailand. Experimental tracks will therefore be helpful to encourage innovation within the market and give the SEC the opportunity to explore potential benefits and risks associated with new business models. It won't do to wait until all risks are tackled before making a move. Also, no one can embrace innovation by themself, so collaboration among players will become crucial. Information flows are also important for ensuring that investors have sufficient information and have better tools for investment decision making. Finally, regulators must acknowledge that it is impossible for them to know about everything well enough to make policy decisions, and hence, they need to be will to learn from and engage with external stakeholders with expertise and experience from both inside and outside the industry, and leveraging on crowd wisdom as a tool for policymaking.