

Luncheon Speech for the American Chamber of Commerce  
On

**“How Can the Capital Market Maximize  
Your Business Opportunities in Thailand?”**

By Dr. Prasarn Trairatvorakul  
Secretary-General, Securities and Exchange Commission, Thailand  
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At Pan Pacific Hotel

**Ladies and Gentlemen,**

It is indeed an honor for me to be invited as a guest speaker to deliver some remarks among this gathering of distinguished members of the American Chamber of Commerce.

I picked the topic of “How Can the Capital Market Maximize Your Business Opportunities in Thailand?” due to my limited observation that, in general, American and Thai businesses alike may not have utilized the Thai capital market to its fullest potential.

I have actually looked through the directory of the Amcham members and found that, despite the prominent standing of your member companies in the product or service market, very few are active securities issuers or large investors in the Thai capital market.

I have no statistics on how large is the total market size or total revenue of all Amcham members, and neither do I have figures on the relationship between market size and capital market participation of companies in the US. However, I would assume that had companies of these same sizes been operating in the US, their participation in the capital market either as issuers or investors would be much greater.

This assumption can be derived from the fact that in 2001, the market capitalization of equity market in the US accounts for 137% of GDP and the bond market accounts for another 167% of GDP. Whereas in Thailand, these market capitalization ratios are only 32% and 37% of GDP (including 27% of government bond), respectively while the banking sector accounts for 87% of GDP.

One explanation for such happening may be that many Amcham members are subsidiaries of already listed US companies and there are just not enough economic justification to maintain many listing status of companies within the same group.

However, participation in the capital market means more than just listing shares in the stock market. It includes raising funds in the bond market as well as investing in different types of securities.

I do believe that if you operate your business in Thailand, you would somehow be exposed to Thai baht. In the past when Thailand used the fixed exchange rate system, the adjustment of exchange rate was usually on the baht devaluation rather than

appreciation and the risk was more pertinent to companies on the importing side, either for financing or goods.

However, with the current floating rate system, the rate can move up as much as down. Hence, companies that use Thailand as production base for exporting can be as vulnerable to FX risk as those on the importing side.

The traditional instrument for reducing these risks may be the banking product like FX swap or forward. However, due to the limited size and maturity of these products, your companies may as well do it yourself by borrowing or investing in Thai baht for going in the short or long direction. For such purpose, the Thai capital market is definitely an alternative to the banking sector for raising fund and investment.

On the borrowing side, our regulation allows for any Thai registered companies, regardless of nationality of their parents, to issue bonds or debenture to the public. Although the banking sector is still flooded with excess liquidity and companies with good credit worthiness can easily get funding, the bond market also seems to have excess demand for investment and finding lenders (or investors) may not be any more difficult.

Coming to the bond market for the first time may seem to be more burdensome than bank borrowing but most of the cost is one time, and can be compensated by the supposedly lower cost of funds over the tenor of the bond. In addition, the issuance of bond can also help diversify your financing source and reduce dependence on the banking sector as well as increase presence of your companies and business among the general Thai investors. This image or PR benefits are even greater for companies listing in the exchange.

The good news for American issuers is that a large portion of our securities regulations are adapted from those of the US SEC and should be familiar to many of you here.

Ladies and Gentlemen, let's now turn to the asset side of your balance sheet.

In the bond market, I have gone through lists of bond subscribers and found very few names of corporate or foreign investors. I believe that there are certainly needs to manage corporate excess liquidity at times but I understand that most of those funds are deposited with banks, either in the normal account or the nonresident baht account. In this connection, may I remind you that bonds and mutual funds (especially fixed income funds or money market funds) are also alternatives. Most of the time, these investments provide more attractive returns than bank deposits and can offer different levels of risk to cater to different levels of investors' appetite.

Ladies and Gentlemen, I have touched quite a bit on the debt market both for your fund raising and investment activities. Let's now look at your investment opportunity in the Thai stock market.

Our stock market was badly hit by the crisis. The index dropped from its height of 1700 in early 1994 to its low of around 200 in September 1998 and is now moving at around 350.

As a securities regulator, I'm not in a position to give advice or provide comments on market direction, otherwise my colleagues may charge me of providing investment advice without proper SEC license. So I'll just quote what other people said. I hope that will keep me safe from our investigation department.

With many positive signs of economic recovery and significant improvement of profitability of listed companies, the SET has gained much interest from many foreign investors. The current average price/earnings or P/E ratio of Thai listed companies is only around 6-7 times while P/E ratio of other markets is around 15-16 times. From such ratios, many consider that the stock price in our market is 'cheap' which means there are still lots of investment opportunities.

However, the market is not yet performing at its highest potential. Apart from external factors like uncertainty of the US-Iraq situation, the US economy or scandals of US listed companies, etc., the Thai capital market is frequently criticized as having insufficient corporate governance.

I would like to affirm that we are very serious in trying to enhance corporate governance of our listed companies and such endeavor has long been deliberated even before the word corporate governance has come in trend. The concept of building investors' confidence has always been close to the heart of securities regulators like us. However, being a non-English speaking country, there are sometimes gaps of understanding and communication.

Ladies and gentlemen, I'm in no means trying to convince you that all Thai listed companies have good corporate governance and I myself do not believe so either. However, there are indeed good firms whose governance are comparable to international best practice.

Our short term goal is to differentiate those companies out of the others through promotion of corporate governance rating which we hope to strengthen reward system for good practice companies and induce more firms to follow suit. We are working closely with TRIS who will perform CG rating service for us and hope to announce rating results of the first 3 companies in the pilot project within this 1-2 week.

Building corporate governance in each country requires a different mix of 3 ingredients: self-discipline, market discipline and regulatory discipline.

We have come quite far on the self-discipline. We (I mean SEC, SET and other relevant agencies) have all the best practice and manuals, we sponsor directors' training program at the Institute of Directors, sponsor as well as give rewards for CG ratings.

Our weakest link may be the enforcement and redress recovery system, which are important tools for strengthening market discipline and force directors and management of companies to always withhold their highest accountability. Our judiciary and punishment system is admittedly slow and is beyond the SEC control. The system does need reform but it takes time and great push from the top level.

By saying so, Ladies and Gentlemen, I had no intention what so ever to cause you indigestion from this big lunch or dispel you from investing in our capital market. In

fact, the point I would like to make is that please don't look at such weakness and presume that corporate governance in Thailand is just not acceptable in all aspects. Each country has its own strength and weaknesses.

Weak civil and criminal enforcement means that we may need to use more regulatory discipline to prevent, rather than rectify wrongdoings, and impose more administrative rather than criminal sanctions. Although many SEC cases did not finally lead to punishment in court of the suspects, but many were fined by the Settlement Committee, and the investigation process can, in itself, be burdensome to the wrongdoers and deter them from engaging in the same process again.

On the regulation side, I can say that we are doing quite well comparing to other markets. In fact, many of the issues under the US new Sarbanes-Oxley Act have long existed in our regulations.

To cite a few examples,

- The Thai SEC has the oversight and enforcement authority over auditors of listed companies in a similar way as the US newly established Public Company Accounting Oversight Board
- Auditors of listed companies have to be registered or recognized by the SEC
- Public companies are prohibited from lending to its directors and management
- Underwriters are prohibited from issuing analyst report to support its underwriting activities during the offering period
- Directors and management of companies are required to certify disclosure documents and financial statements that the reports does not contain untrue statements or omit to state material fact. (However, the certification in Thai regulation does not cover matters on sufficiency of internal control.)
- ESOP are required to be approved by shareholders.
- The SEC selectively and adequately review annual disclosure of listed companies

There are, however many points that we should consider in strengthening our laws and regulations. We are, in fact, in the process of proposing amendment to the Securities and Exchange Commission Act to strengthen directors and management's accountability and facilitate the exercise of shareholders rights.

In short, I would summarize that our stock market is improving both in terms of performance and corporate governance and there are still much more investment and fund raising opportunities in the market. I hope that after today's session, you would ask yourself "Have I best utilized the Thai capital market to the best of my interest?" And if the answer is "No", I believe it's not too late to start using it today.

Thank you very much.