

# **Implementation Plan for ASEAN Capital Markets Integration**

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**At the 2<sup>nd</sup> OECD Southeast Asia Regional Forum, 27 April 2009, Bangkok**

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## **Introduction**

The ASEAN Economic Community Blueprint 2015 (AEC Blueprint 2015) as agreed upon by ASEAN leaders in November, 2007, aims to establish ASEAN as a single market and production base, with free flow of goods, services, investments and skilled labour, and freer flow of capital. The AEC Blueprint also sets out a broad general framework to strengthen ASEAN capital market development and integration by 2015.

The need for integration of regional capital markets is becoming increasingly necessary in order to grow and strengthen ASEAN's resilience. ASEAN capital markets individually are small, with limited range of products and services and are relatively illiquid, with high transactions costs and large equity premiums due to sub-scale trading volumes. ASEAN markets need to collaborate and achieve parity with developed markets in order to make ASEAN investors and issuers look to ASEAN as the markets of choice.

Capital markets integration will allow for greater cross border access to investors and issuers, and help broaden the investor base and range of products, thereby strengthening domestic capital markets and providing liquidity, scale, capacity and ultimately put ASEAN in the position to integrate with global market.

## **The ACMF's Implementation Plan**

Recognising considerable challenges in relation to the appropriate sequencing and coordination of implementation initiatives, the **ASEAN Capital Markets Forum (ACMF)**, which is a forum comprising the heads of securities regulators in ASEAN, had proposed to develop a comprehensive and holistic plan to meet these objectives.

The ACMF's proposal to develop a plan, later known as "Implementation Plan to promote the development of an integrated capital market to achieve the objectives of the AEC Blueprint" (the Implementation Plan) was approved by the ASEAN Finance Ministers at the 12<sup>th</sup> ASEAN Finance Ministers' Meeting (AFMM) in Danang, Vietnam in April 2008. The AFMM also requested the ACMF to submit the Implementation Plan to the next AFMM in Thailand.

Before the initiative began in mid 2008, the ACMF had established a group of capital market experts drawn from the ASEAN region, known as the "Group of Experts" (GOE) to provide guidance on the development of the Implementation Plan to ensure that the Plan would be pragmatic and beneficial to the private sector. Members of the GOE are:

1. Mr. Jose Isidro Camacho, Vice Chairman - Asia Pacific Credit Suisse, and former Finance Secretary of the Philippines;
2. Mr. Banyong Pongpanich, Chairman - Phatra Securities Plc;
3. Dr. Thillainathan Ramasamy, Director - Bursa Malaysia Berhad;
4. Mr. Piyush Gupta, CEO, Southeast Asia Pacific - Citibank, N.A.

Beside a group of capital market experts, several more capital market experts were invited as “National Experts” to provide technical expertise in the drafting stage. In addition, the Asian Development Bank (ADB) played a key role by providing technical assistance under the Regional Technical Assistance Program to the ACMF by engaging a team of consultants to assist with the drafting of the Implementation Plan. The drafting process was carried out with a series of meetings and the ACMF-led workshops with GOE, National Experts and the ADB consulting team. In addition, inputs from agencies such as the Ministries of Finance, the Central Banks and the Stock Exchanges were gathered during the process. The Implementation Plan was completed in March 2009 and was submitted to the AFMM.

The AFMM at its 13<sup>th</sup> meeting in Pattaya, Thailand on April 9, 2009 endorsed the Implementation Plan as proposed by the ACMF and announced through its Joint Ministerial Statement that:

*“... We endorsed the Implementation Plan to Promote the Development of Integrated Capital Market in ASEAN to achieve the objectives of AEC Blueprint by 2015. The Plan provides for a comprehensive approach at building an integrated regional capital market, with strategic initiatives and milestones, to strengthen financial intermediation, enhance capacity and manage risks to support national and regional growth. ...”*

The AFMM’s endorsement of the ACMF’s Implementation Plan sent a strong signal to relevant parties to put all efforts into the implementation of the initiatives specified in it with confidence to achieve the objectives of the AEC Blueprint 2015.

### **Summary of the Implementation Plan**

The Implementation Plan was drafted based on six principles agreed upon by the ACMF. They are:

- 1) Adoption of international standards to the maximum extent possible.
- 2) Progressive liberalization to facilitate more open access and cost reduction through greater competition.
- 3) Sequencing of regional integration initiatives taking into account ease of implementation, market preferences and technical linkages.
- 4) Engage the ASEAN Secretariat as the main coordinator.
- 5) Consistent implementation of policies to support regional integration at country level, with effective monitoring mechanisms.
- 6) Strong communications plan and consultative processes to build consensus and set priorities for integration initiatives.

There are three broad themes in the Implementation Plan which cover a comprehensive set of key initiatives and specific implementation actions and milestones.

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>

In addition, the Implementation Plan also specifies six strategic components with three distinct phases (Phase I: 2009-2010, Phase II: 2011- 2012 and Phase III: 2013-2015). The core strategy in the Plan is a mutual recognition and harmonization process of expanding scope and country coverage. The initial phase of the Plan focuses on establishing bilateral arrangements, and subsequently moving towards multilateral arrangements as more countries become ready to opt-in. Furthermore, the Plan initially focuses on liberalization initiatives for non-retail investors, with subsequent opening up to retail investors, complemented by an enhanced investor protection regime.

<p><b>Strategic Component I</b> Mutual Recognition framework to facilitate</p> <ul style="list-style-type: none"> <li>• Cross border fund raising</li> <li>• Product distribution</li> <li>• Cross border investments within ASEAN</li> <li>• Market access by intermediaries</li> </ul>	<p><b>Strategic Component IV</b> Strengthen bond markets</p> <ul style="list-style-type: none"> <li>• Accelerate reform initiatives in bond issuance, listing &amp; distribution</li> <li>• Design a regional strategy for ratings comparability</li> <li>• Improve market liquidity, and clearing &amp; settlement of linkages</li> </ul>
<p><b>Strategic Component II</b> ASEAN exchange alliance and governance framework</p> <ul style="list-style-type: none"> <li>• Build trading linkages and setup ASEAN Board</li> <li>• Enhance governance, trading efficiency &amp; cost reduction</li> <li>• Clearing, depository, and settlement linkage</li> <li>• Marketing and investor education</li> </ul>	<p><b>Strategic Component V</b> Align domestic CMDP to support regional integration</p> <ul style="list-style-type: none"> <li>• Align national development initiatives to support cross border integration</li> <li>• Adopt phased approach to liberalization to ensure domestic market readiness</li> </ul>
<p><b>Strategic Component III</b> Promote new products &amp; build ASEAN as an asset class</p> <ul style="list-style-type: none"> <li>• Promote private sector led regional products development</li> <li>• Promote ASEAN star companies under the ASEAN board</li> </ul>	<p><b>Strategic Component VI</b> Reinforce ASEAN working process</p> <ul style="list-style-type: none"> <li>• Establish ASEAN Coordinating Team, comprising dedicated resources from ASEC and dedicated point persons from ACMF members to monitor, coordinate, report and raise issues on the Implementation Plan.</li> </ul>

The Plan has identified the need for capital mobility to fully realise the benefits of the integration initiatives. The measures identified that are outside the ACMF's remit but are preconditions to the success of capital market integration, such as the liberalization of capital movement and the harmonization of tax regime, should be further assessed by relevant authorities and working committees under the ASEAN process. In this regard, the ACMF proposes that the ASEAN Secretariat shall monitor and facilitate the implementation of these measures and also work with relevant authorities to ensure coordination of the ASEAN financial market integration.

### **Implications to the international financial community**

By integrating regional capital markets, international financial institutions that have operations linked to ASEAN can expand their business scope and explore broader business opportunities. Besides, international investors will have greater access to ASEAN exchanges products at competitive fee from a single access point, with capital market intermediaries that can provide services throughout ASEAN based on home country approval.

One example of the integration effort included in the Plan is the setting up of the ASEAN electronic trading link to enhance the competitiveness of their capital markets. This e-trading link, through one single access point, allows intra-ASEAN cross border trading and will attract more international funds into ASEAN. This kind of connectivity removes barriers for international investors accessing ASEAN markets, as well as offering ASEAN investors direct access to leading stock exchanges in US, Europe and Asia.

This ASEAN exchanges project which is expected to go live in 2010, will strengthen regional financial stability by deepening regional capital markets and facilitating progressive liberalization of the financial sector.

### **The road ahead**

The ACMF will embark upon initiatives of the Implementation Plan to create the enabling conditions for market integration through harmonization and mutual recognition of capital market related regulations. Other parties such as the exchanges and the securities business community will also play key roles in creating market infrastructure for regional and global integration and develop regionally focused products and market intermediaries. In addition, the ASEAN Secretariat will also be responsible for coordinating with the Ministries of Finance and Central Banks in ASEAN and other working committees under the ASEAN process to assess and implement strategic initiatives in order to further liberalize capital flow restrictions and reform the tax system.

While progressing towards more integration, the cross-border activities are expected to grow. In this regard, the ACMF will work together closely in terms of supervision and enforcement. This is to ensure that investors are duly protected from cross-border fraud and misconduct, the integrity of the market is high and systematic risk is well-managed. The ACMF will also ensure that members with less-advanced capital markets will be provided with technical

assistance from internal as well as outside sources to develop each national-level capital market development plan and to build capacity to be in line with this Implementation Plan.

The ACMF aims to provide progress update through the ASEAN process and to coordinate with the ASEAN Secretariat to ensure that all parties will reach each key milestone identified in the Implementation plan and ultimately being able to fulfill the visions and objectives of the AEC Blueprint 2015.

Lastly, I would like to express my appreciation to the OECD and the Ministry of Foreign Affairs for allowing me to speak on this important work carried out by the ACMF. And on behalf of the ACMF, I look forward to further cooperation with the OECD regarding capital market integration and development.

*For texts of the ACMF's Implementation Plan please visit [www.sec.or.th](http://www.sec.or.th)*

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