

# **ASEAN Capital Markets: A Wealth of Opportunities**

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Your Excellencies Finance Ministers, ASEAN Secretary-General, Chairperson of the Securities Commission, distinguished guests, ladies and gentlemen

I wish to congratulate the Malaysian Ministry of Finance and the Securities Commission for organizing this ASEAN Finance Ministers' Investor Seminar in Kuala Lumpur. It is an important symbol.

It emphasizes our strong confidence in ASEAN's robust economic growth - long into the future! It recognizes that this growth will create substantial wealth. And it anticipates that, with more wealth, ASEAN investors will demand greater investment diversity and wider spectrum of risk and return - beyond what their individual domestic markets currently offer.

And we at the ACMF want them to discover that a wealth of opportunities does exist within ASEAN.

Also ASEAN will have to make a lot of investments in infrastructure going forward. The new vision of ASEAN CONNECTIVITY that has been endorsed at the latest Summit in Vietnam will call for many more and better infrastructure, and will add tremendously to these investments. We at the ACMF also want the financing for these projects to be packaged and managed within ASEAN capital markets, and to be invested in by ASEAN investors.

I shall therefore take a few minutes to tell you about the progress of ASEAN capital market integration. I shall explain why we are doing this, what changes will occur and to whom?

In the end, you will be able to see, if you are an investor, how your ASEAN investment prospects will substantially improve. You will also see, if you are running a financial business within the region, how your future business plans may have to change. You will see many opportunities, and you will see a few challenges.

Ladies and gentlemen, why is it necessary to integrate the regional capital markets?

The necessity occurs because of the 2015 goal of ASEAN Economic Community. The AEC aims for free flow of people, and free flow of goods and services. It will lead to a lot more intra-regional economic activities. And with them, more intra-regional financial transactions!

In the past, the intra-regional financial transactions did not require anything special because they were mostly done through commercial banks. The system to facilitate transactions between regional banks has been in place for a long time. The main pillar is the enforceability of legal contracts.

But for the future, financial transactions will naturally have to expand beyond the banking channel into the capital market channel. This, however, requires a lot more work. In the capital markets, current business practices and processes in individual ASEAN countries are still somewhat different. And the levels of development of the individual markets, as well as the perception about their reputation, are also different.

The ASEAN Capital Markets Forum (ACMF), which is the meeting of ASEAN securities regulators of which I am Chairman, therefore conducted a comprehensive study

with the help of Asian Development Bank and in 2009 proposed to the ASEAN Finance Ministers the Implementation Plan to integrate capital markets step by step up to 2015.

What is our aim? Our aim is to elevate and present to the international investors ASEAN portfolio investments as a distinct asset class. We want it to be world class.

What does the work involve?

**First**, we have to ensure that ASEAN products are of good quality. Investors must have confidence in its corporate governance. Toward this aim, the ACMF will therefore launch a project to assess and rank corporate governance reports of major companies across ASEAN.

Some countries are already doing this for their individual markets. But we want to compare major companies across the region using the same yard stick. This exercise will also be done with the help of the Asian Development Bank who can help to compare with the methods employed by both the OECD and Asian Corporate Governance Association, based in HK. This will be a good exercise that encourages the race to the top.

The framework will be ready next year, and the actual assessment will be done in 2012.

We have also agreed for all countries to automatically accept the accounts done in other countries using International Financial Reporting Standard (IFRS).

**Further work on corporate governance** that I have in mind shall include comparing legal provisions regarding fiduciary duties of company executives, comparing the role and responsibility of independent directors, and establishing closer cross-border enforcement cooperation between regulators. I think we shall also need to encourage all

countries to undergo the CG ROSC (Reports on the Observance of Standards and Codes) by the World Bank.

**Second**, we have to ensure that information disclosure in public offerings within ASEAN must observe the same high standards. To enable this, we have established the ASEAN and Plus Standards of disclosure for cross-border offerings of equity and bond. It has already been adopted in Malaysia, Singapore and Thailand with more countries to follow. These ASEAN standards allow issuers to use just one single set of prospectus with only a few Plus, the additional local requirements.

The eventual goal is to get rid of the Plus, the additional local requirements, so as to enable issuers to tap savings in all ASEAN countries using just one single set of document, like a single passport.

**Third**, we have to enable securities to be offered across borders more easily, especially collective investment schemes (CIS).

The ACMF has set a clear timeframe for cross-border offering of collective investment schemes (CIS) by mutual recognition. Our aim is to allow products that have been authorized in one ASEAN jurisdiction to be offered elsewhere without having to reapply to another regulator.

This will start with offers to non-retail investors by 1<sup>st</sup> half of 2012. Later it will extend to the retail public, first for plain products - by the end of 2012 and later for complex products by 2013. However, the offers would still have to be made through local intermediaries to ensure enforceability of investor protection.

We also need to provide the investors with a tool to identify whether or not the CIS is a scheme that is suitable for retail distribution, meaning that investments in the scheme are highly diversified and highly liquid.

In this respect, we looked at the EU experience in creating the framework on Undertakings for Collective Investments in Transferable Securities (UCITS). The ACMF decided that we shall develop our own ASEAN-UCITS which are expected to be launched by 2012.

**Fourth**, we must ensure that the access to major ASEAN markets by investors and intermediaries, both inside and outside, is quick and convenient.

The stock exchanges have proposed to establish the ASEAN Exchange linkage. Through one electronic platform and one representing broker in ASEAN, investors and intermediaries will be able to access all ASEAN exchanges simultaneously. All brokers in ASEAN will have an unprecedented opportunity to leverage on this linkage and expand their businesses to other ASEAN exchanges.

Bursa Malaysia, SGX of Singapore and SET of Thailand are set to join and go live by H2 2011, and PSE of the Philippines to follow in H1 2012.

The ASEAN Exchange Linkage will not only provide ease of access, but will also increase market liquidity substantially both from trades outside ASEAN and intra-ASEAN. Experience from Norex Alliance in the Nordic and Baltic countries showed that such linkage increased liquidity a lot, and the exchanges that enjoyed higher liquidity were in fact the smaller exchanges.

In addition to the ASEAN Exchange Linkage, the exchanges will also promote leading public companies in ASEAN under the brand of “ASEAN Stars”.

If you are these companies, you will be constantly featured on the radar screens of global investors.

**Fifth**, we must ensure that all investors in ASEAN products have the same high level of protection and rights. I already told you that the ACMF will work on strengthening cross-border enforcement and cooperation. But this is not enough.

There will be cross-border commercial disputes between the investors against the issuers, and even between one investor against another. We therefore have to create mechanisms to allow those injured to seek legal redress conveniently and at low costs.

The ASEAN Secretariat will set up a high level task force with the help of experts from Ministries of Justice to look at this issue. In the meantime, the ACMF will also explore mechanisms that provide retail investors with convenient resolution when they have cross-border disputes with intermediaries.

**Finally**, we have to make sure that the tax treatments in each country do not hinder capital movement. Here also, the ASEAN Secretariat is forming a tax group to study and unify practices regarding withholding tax and double taxation issues.

Ladies and gentlemen

You can see that we have a full agenda covering all bases. And we have a clear timeframe ahead. We think it will be good for ASEAN. But we cannot consider it a success unless it adds value to **all** stakeholders.

So to summarize! As investors, what does it mean to you?

You are going to have a **more** convenient access to a **wider** variety of products. You will be able to diversify your risks more effectively. There will be more investment alternatives. And the product quality will be more assured.

But you have to prepare yourself. You will need to open up your perspectives and become more acquainted with products from other countries.

As issuers of securities, or public companies, what does it mean to you?

You will be able to raise funds more conveniently and at lower costs. We want your costs of capital to be competitive. We want you to be able to tap larger amounts of savings within the region, and have larger pools of liquidity. And we want you to have more prominent international profiles.

But you will also have to prepare yourself. You have to build good reputation regarding governance, upholding investors' rights and transparency.

Finally, as securities business operators, what does it mean to you? And this is perhaps the group that will be most affected.

Some of these measures will be game changing. There will be much wider opportunities. There will be much greater varieties of products and services to be packaged and provided - - to wider groups of intermediaries, to wider groups of issuers, both public and private, and to wider groups of investors, both within ASEAN and beyond.

But at the same time, you have plan for more competition. You should identify your strengths and weaknesses, and adjust your strategy early.

There will be pluses and minuses. However, I am absolutely sure that the net result for all stakeholders will be a wealth of opportunities. A wealth of opportunities that you cannot afford to miss!