Time for Thai Companies to Go Global

Speech by Mr. Thirachai Phuvanatnaranubala, Secretary-General, Securities and Exchange Commission, Thailand, at the London Stock Exchange Seminar, Bangkok, 11 May 2011

This week, the London Stock Exchange organizes a seminar in Bangkok to attract Thai companies to list there. This is a sign of the time.

If one looks at commercial banking, one will realize that it is constrained by national borders. It requires local presence as well as authorization by the host authorities. Cross border competition in commercial banking is therefore subject to operational limits.

Capital markets, on the other hand, do not require local presence. It is therefore not subject to national limits. The only rules preventing cross border businesses among capital markets are actually exchange controls. In a way, exchange controls have for a long time acted as the invisible glass wall protecting the less developed capital markets. Investors are prevented from taking out money for portfolio investments abroad.

However, in these days, emerging markets are experiencing rapid economic growth, and more and more are seeing their international reserves piling up. The countries that manage these reserves entirely at their central banks are facing losses of opportunity. The mandates for reserve investment by most central banks tend to be quite limited, and result in low yields.

One way for the country to generate more wealth is to relax exchange control and allow its citizens to make portfolio investments abroad. The citizens normally have higher risk/return profiles than the central bank. Through this, the country’s foreign assets will be more diversified with higher yields.

In the case of Thailand, the SEC succeeded in persuading the Bank of Thailand to allow outbound portfolio investments starting in 2001. The central bank gave the SEC a small limit to be divided to interested investors. The limit has since been raised a few times, and the amount is now US $ 50,000 Therefore, for retail Thai investors, the globalization age arrived in the 2000s.

What I had described is the globalization on the investors’ side. However, in the seminar organized by the London Stock Exchange, we are going to see globalization on the issuers' side. The LSE is seeking for Thai companies to list their shares in London.

Over the past two centuries, London has built itself into a prominent financial capital of the world. The number of transactions and the amount of money involved are gigantic. The LSE has the third largest market capitalization in the world. But London does not thrive on size and liquidity alone.

London has succeeded in building a reputation for corporate governance. It has in place a system of check and balances among the private market participants to police and monitor this. It has learnt early on the benefits in having self regulatory bodies set professional standards and best practices.

Also London has been able to build a system to ensure orderliness in market trading. And it has done all this, not by rigid rules written entirely by the authorities, but by a mix of rules together with market conventions and codes of conduct. It allows London to have orderly market, but at the same time the flexibility for innovation and development.

The fact that the London Stock Exchange now seeks Thai companies to list on its board reflects two things.

First, the Thai economy has come of age. For a country to be marketable to the world there must be confidence in its politics, its social fabric, its macro-economic management and its future. Thailand as a country has now reached the stage that can market itself well to the world.

Second, there is now sufficient confidence in the governance of Thai companies. Since we embarked upon the World Bank Corporate Governance Report on Observation of Standards and Codes exercise in 2004, Thailand's scores regarding corporate governance have kept on improving.

We have made substantial progress in implementing both the international accounting standards and the auditing standards. We have amended the law to specify fiduciary duties for company directors. We have introduced accounting surveillance to prevent frauds and window dressing.

We have introduced rules to ensure that related party transactions are subjected to proper supervision by independent directors. We have in place the Institute of Directors to hold regular education for company directors. And the

IOD has been active in assessing and ranking corporate governance of large listed companies in Thailand.

In 2010, Asian Corporate Governance Association ("ACGA") which is an independent non-profit organization in Hong Kong S.A.R. announced their annual ranking of corporate practices in 11 Asian countries (Singapore, Hong Kong, Japan, Taiwan, Thailand, Malaysia, India, China, Korea, Indonesia, and Philippines). Thailand's rank went up from 8th (in 2007) to 4th. We were the country with the most improved total score, especially in the areas of political and regulatory environment as well as CG culture.

The effort to improve corporate governance will not be confined only to Thailand. The ASEAN Capital Markets Forum of which I am Chairman is also going to lift corporate governance in all of ASEAN.

This will be done systematically, starting with the ranking of corporate governance of large listed companies on an ASEAN-wide basis. Then we shall expand to the role of independent directors and rules regarding related party transactions.

At the SEC, we therefore welcome the approach by the London Stock Exchange. It confirms Thailand's hard won achievements.