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Thai Capital Market Development

Thailand's capital market has been dynamic and needs to be able to keep up with various changes and developments that come from all sides. Thai Securities and Exchange Commission (SEC) has laid the foundation to further develop the ecosystem of the capital market by adopting multiple approaches to promote its sustainability in various areas.

Developing Corporate Governance

Listed companies play an integral role in the economy, creating jobs and improving income distribution. With focus on practicality and robust development of the ecosystem of the Thai capital market, regulatory regime has been raised to high standards. Corporate governance has been a focus area for more than 20 years, yet many financial analysts view that the 1997 financial crisis had its root in the failure of corporate governance, particularly in the financial sector.

After the 1997 financial crisis, the authorities instituted plenty of reforms to encourage companies to possess corporate governance in substance, take social

responsibility, and adopt anti-corruption practices. Also many rules, laws and regulations have been put in place to cope with this issue, e.g., independent directors, related party transactions, disclosure, and accounting standards.

One of the most successful developments has been the creation of the Thai Institute of Directors, which helps develop professional knowledge and skills necessary for directors of listed companies. In collaboration with the Thai Institute of Directors and the Federation of Accounting Professions, training courses have been revised to enhance the quality of independent directors.

However, with 60-70% of Thai companies still family-owned, independent directors often represent only a small fraction of the board, and thus their involvement in decision-making cannot be fully gauged. Related authorities are teaming up to develop an Integrated Governance Framework to assist companies to blend corporate governance into their operations in a practical manner. Courses and seminars have been updated to equip company directors on leadership roles and creation of effective boards. It is important to universalize standards and get people to understand what corporate governance is.

Greater education and communication has been carried out with the stakeholders through platforms such as CEO forums, to have exchanges on these issues. Directors from family's side have been encouraged to understand the importance of

good governance in contributing to a company's sustainability.

In terms of ratings, rankings and evaluations, the key is to move away from form-based to substance-based data, and to assess how to ensure regulations achieve their outcomes. Under the ASEAN Corporate Governance Scorecard initiative, the quality of Thai listed companies is gaining recognition on the international stage with commendable rankings at the recent ASEAN Corporate Governance Conference and Awards held in the Philippines. Among the 50 companies with the highest ASEAN CG Scorecard points, 23 were Thai listed companies; two Thai companies were in the top five.

Table 1: Thailand Corporate Governance Score

Year	Average Score
2012	67.66
2013	75.39
2014	84.53
2015	87.53

Source: ASEAN Corporate Governance Scorecard Report, Thai Institute of Directors Association

Furthermore, The Organization for Economic Co-operation and Development (OECD) granted Thailand the honor of hosting the OECD - Asian Roundtable on Corporate Governance for 2015. The forum's agenda included strengthening corporate governance in the region, discussion of challenges and shortcomings, as well as sharing perspectives through case studies. The forum drew more than 150 participants representing management, government agencies and the private sector, both domestic and foreign. The forum also marked the launch of the OECD's new "Principles of Corporate Governance" which was freshly updated to reflect the changing business environment and global capital markets. It will serve as an important reference for the development and assessment of corporate governance worldwide.

Promoting Anti-corruption Efforts

Thai corporates have performed quite well, so the key issue is now moving from basic corporate governance to issues such as Environmental, Social and Governance (ESG) and anti-corruption efforts. Listed companies are required to announce their anti-corruption policy and measures in the annual registration statement (form 56-1) document filing and information disclosure prescribed by the application for an offer for sale of shares (form 69-1) as of 1 January 2014 onwards.

Since 2014, The Sustainability Development Roadmap for listed companies has been encouraging listed companies to operate their business with social responsibility and good governance. Policy direction also called for listed companies to be genuinely committed to fight corruption, which could result in listed companies being viewed as change agents to inspire businesses in other sectors to stand up against corruption.

To aid investors and the public interested in this matter, the Thaipat Institute created the Anti-corruption Progress Indicator which classifies the effectiveness of an organization's anti-corruption measures into five levels.

The Thaipat Institute reviewed listed companies in 2014 and 2015, and included

Table 2: Anti-corruption Progress Indicators

Score	Description
1 - Committed	Indicating commitment of top executive and the organization with board of directors' resolution and policy not to involve with corruption.
2 - Declared	Indicating determination by means of declaration to join Collective Action Coalition (CAC) Project by Thai private enterprises.
3 - Established	Indicating policy to oppose bribing government officials and related corruption as well as policy to communicate and educate employees regarding anti-corruption policy and practices. <ul style="list-style-type: none"> - A : Established by Declaration of Intent - B : Established by Internal Commitment and Policy
4 - Certified	Indicating an implementation audited by an audit committee or SEC-approved auditor, a certification by CAC or an audit by independent external organizations.
5 - Extended	Indicating anti-corruption policy which extends to business partners, consultants, intermediaries and business representatives.

Source: Thaipat Institute

market intermediaries in 2015 too. The latest results completed on 2 December 2015 revealed that most listed companies and intermediaries progressed substantially in their preparations to prevent corruption in organizations. The review of 583 listed companies showed that 542 companies (92.97%) attained a level of 1 or higher, compared with 344 in 2014 (60.70%), an improvement of 198 companies (32.27%). Among these figures, 13 companies (2.23%) achieved the highest level of 5. The review of 71 intermediaries (included eight listed companies) found that 66 companies (92.97%) had a level of 1 or higher while 29 companies (40.85%) achieved a level of 4. Results of the Anti-corruption Progress Indicator are available at www.sec.or.th and www.cgthailand.org.

Increasing Competitiveness

The types of financial products offered in Thailand are still quite limited. Currently available are such products as equity

funds, bond funds, mixed funds, property funds, real estate investment trusts (REITs) and infrastructure funds. A variety of products like hedge funds, high-yield bond funds, and leverage funds will be available in the Thai capital market with an aim to provide investors greater choice.

Another important milestone was the merger of Agricultural Futures Exchange of Thailand (AFET) and Thailand Futures Exchange (TFEX) to raise efficiency and benefit from economies of scale. A single bourse also makes it easier for investors. The system should become more robust as agricultural futures trading standards and supervision of business participants have been raised to international levels, thereby strengthening confidence in custody, settlement, and delivery.

The main issue around the introduction of commodities is whether the underlying market is large enough or has sufficient liquidity and uniformity for derivatives to ride on their success. In terms of complexity, the derivatives market is easier than the cash market for investors to understand. As such, investor education is not the primary issue hampering derivatives; rather, the success of the derivatives market depends on sufficient liquidity and volatility.

Raising International Profile

Stock markets across the world are each seeking global recognition by trying to position themselves as financial centers or gateways to their respective countries. They are also keen on boosting competitiveness through such means as alliances, connectivity with other markets, and joint investments to raise efficiency and lower costs to entice investors and issuers.

The Thai capital market is aiming to increase the effectiveness and competitiveness of business operators in both the domestic and international markets. The Thai capital market and its business participants need to demonstrate their strengths to attract global investors. To increase the caliber of asset management companies and maintain industry growth, regulations regarding investments by funds with the intention of strengthening the asset management business' ecosystem have been revised.

Capital transfers and capital outflows have been an issue in recent times, especially as they relate to the strength of the baht. It used to be the case that for Thai people to invest overseas or put money into foreign portfolio investments, specific exemptions and approvals had to be obtained for each transaction, but in the near future, blanket approvals for individuals have been introduced to allow net portfolio investment abroad. Funds are now allowed greater flexibility to invest to better serve market demand. Yet, investors will receive the same level of protection.

Financing for SMEs

SMEs are the backbone of Thailand's economy, accounting for almost 40% of GDP. However, SME funding still relies

heavily on short-term loans from banks. Regulators all over the world are challenged by the need to widen their role to help facilitate new means of fund mobilization to assist SMEs or strategic sectors deemed vital for a country's development. Things like financial technology have been embraced to help improve financial inclusion for those who cannot yet tap the capital market.

Guidelines have been issued to support fundraising online or equity crowdfunding, which will be an alternative fundraising channel in which smaller businesses can get more access to funding. This means helping these sectors access funding easily and swiftly, at reasonable costs relative to their risks without compromising proper investor protection. This will enable small companies or startups to obtain affordable long-term capital for the first time and to compete. With many operators expressing interest in becoming funding portals, services may debut soon.

Supporting for Financial Technology (FinTech)

FinTech will not only play a significant role in the way in which business is conducted, but also change the face of our financial system. FinTech has the potential to transform products and services, including supervision of the capital market. Technology could provide an alternative to a human operators, for instance, letting a computer application construct an investment portfolio automatically. Blockchain Technology, which is secure, inexpensive, and does not require an intermediary has the capability to transform stock market activities such as settlement and delivery. Big Data Analytics is another phenomenon which could be used to analyze securities trading patterns. Huge advances in technology bring opportunities and new channels to offer financial services. New players emerge using technology to create new financial products and services to cater to a wider range of customers, even enabling previously unserved customers to access market-cost capital swiftly.

Apart from the advantages of FinTech, Thai authorities have also been monitoring its effects such as disinterme-

diation, as traditional financial services are increasingly circumvented. They will need to adapt or move ahead of the game. Cybercrime can also threaten market stability. Investors themselves, need to be thoroughly aware of the pros and cons of new services created by FinTech. Related authorities will strive to build readiness in all segments of the capital market.

Preparing for Aging Population

An aging society has a greater need for savings to prepare for retirement, particularly in Thailand's case where the situation will be relatively more pronounced. The Provident Fund Act has been pressed for changes, observing the need to prepare for our aging society and for citizens to have sufficient financial well-being. Revisions to the Act will create needed adjustment to the ecosystem as members currently tend to "save little, save temporarily, and save ineffectively." To encourage members to "save more, save continuously, and save competently," the ACT is now permitting them to increase their employee savings contribution rate beyond the employer's contribution rate. If an employee does not select an investment choice, the provident fund committee may pick one that is suited for that employee, such as progressively reducing the member portfolio's investment risk as the employee ages (Life Path).

Creating Stability and Confidence in the System

Critical are factors that could affect the stability and confidence in the system are: (1) volatility of capital flows resulting from uneven economic recovery of various nations and pursuit of different monetary policies, geopolitical risks in certain regions, and (2) opportunities created by technological advances is inevitably accompanied by

threats from cybercrime.

In response to these aforementioned threats, to strengthen market stability and resilience, Thai SEC has (1) revised the capital requirements for securities companies and asset management companies to cope with market volatility, (2) strengthened guidelines on IT security for businesses to prevent cybercrime and (3) updated test scenarios and factors to test resilience against systemic risks and conducted stress tests. Results indicated that no businesses face such problems.

Conclusion

As future work plans formulated, an analysis of the long term outlook for the global economy and capital markets have been incorporated into the plans as well. The world's economies and financial markets are still very inter-connected and capital flows will remain volatile. New regulations will tend to be extra-territorial rules and capital markets will still be of prime importance for economies to mobilize capital. The quest for higher returns will remain a key objective, while technology will advance in leaps and bounds. Dynamic forces with significant potential impact on capital market policy will keep moving in an unpredictable way. Work plans over the next few years could be a big challenge and consist of continued implementation of on-going or long-term projects as well as a number of issues which may require further adaptation and more flexibility in order to meet new trends and changing market demands.

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Thiti Chirasanta has served as Strategy Director of the Office of the Agricultural Futures Trading Commission (AFTC) since 2011. He directs and develops strategy to propel liquidity of the Agricultural Futures Exchange of Thailand and supports government policies to stabilize prices of agricultural products. Prior to that, he was Senior Analyst at JPMorgan Securities (Thailand), deploying and developing settlement processes for futures and options business and managing assets and settlements. His previous positions also include Conversion Associate at BNY Mellon in Wilmington Delaware, U.S., and analyzing credits and following up bad debt for Los Angeles and New York branches at KasikornBank Bangkok Thailand.

Chirasanta holds a Master of Science in Business Management (1998), a Bachelor of Science in Business Administration (Accounting) (1997) from California University of Pennsylvania, and a Bachelor of Business Administration (Marketing) (1991) from Thammasat University. He is currently earning a certificate of Thai & Asian Economic Community from King Prajadhipok's Institute.