



## THE PHILIPPINE STOCK EXCHANGE

# The Philippine Stock Exchange: Rising to New Heights

## Review of 2017

The Philippine economy, with a growth of 6.9 percent in the third quarter of 2017, outpaced and outshone most of its neighbors. The latest GDP figure also marks the 74th consecutive quarter of growth since 1997, with the last 22 quarters recording GDP growth above five percent.

The Philippine stock market experienced a market rally in 2017, an improvement from the two previous years when the country's benchmark index, the PSEi, experienced shortfalls towards the turn of the year. The PSEi finished 2017 at a record high of 8,558.42, up by 25.1 percent or 1,717.78 points from the 6,840.64 level registered at the end of 2016 (Figure 1). During 2017, the PSEi registered a total of 14 record highs since its April 2015 record of 8,127.48. The first record high posted during the year was on 14 September 2017 when the PSEi closed at 8,144.91.

The bullish sentiment continues to emanate from a positive view of the Philippine economy, which remains rock-solid in terms of its fundamentals. Investor ex-

citement is seen to be sustained further by the significant upside offered by the local market given the current administration's upcoming initiatives, including its ambitious infrastructure program and potentially game-changing tax reform plan. The ascent of the benchmark index likewise continues to track the gains in Wall Street and other Asian markets.

Other market indicators, which have been just as relevant in demonstrating how the local market fared in 2017, continued to trend positively. By the end of 2017, total market capitalization was up by 21.8 percent to PHP 17.58 trillion from

PHP 14.44 trillion at the end of 2016 (Table 1). Domestic market capitalization, which excludes three foreign firms from the calculation, was likewise up by 22.1 percent to PHP 14.49 trillion from PHP 11.87 trillion during the same time the prior year.\*<sup>1</sup> Trading activity remained robust at PHP 8.06 billion value turnover on a daily basis, 3.2 percent higher than the PHP 7.81 billion average a year ago. Trading by foreign investors was also positive as it yielded a net buying amount of PHP 56.21 billion, up from the PHP 2.80 billion net foreign buying figure in the same period the previous year.

Figure 1: PSEi Performance (Jan 2015 to Dec 2017)



**Table 1: Stock Market Indicators (2017 vs 2016)**

	PHP Billion		
	end-2017	end-2016	% Change
Total Market Capitalization	17,583.12	14,438.77	21.8
Domestic Market Capitalization	14,490.83	11,873.22	22.1
Net Foreign Buying / (Selling)	56.20	2.80	1,907.1
Total Value of Share Trading	1,958.36	1,929.50	1.5
Daily Average of Share Trading Value	8.06	7.81	3.2
Capital Raised	164.76	176.80	(6.8)
No. of Listed Companies	267	265	0.8

Source: The Philippine Stock Exchange

## A Look Ahead to 2018

For 2018, domestic consumption is expected to continue to drive the economy on the back of higher consumer income and purchasing power arising from the steady inflows of remittances, benign inflation environment, improving jobs climate, and relief provided by downward adjustments in personal income tax due to the passage of the Tax Reform for Acceleration and Inclusion bill. The Philippine economy is also seen to receive an additional boost from the administration's efforts to ramp up infrastructure spending to at least seven percent of GDP. A resurgent manufacturing sector and a flourishing tourism industry are both similarly anticipated to continue supporting economic growth.

Risks to the forecast include uncertainties in global markets and divergent global monetary policies, which may yet again cause jitters in the financial markets. Furthermore, potential economic slowdowns in some of the country's major trading partners including China and Japan may adversely affect the Philippines' already sluggish exports.

Despite these external factors and the political noise both locally and abroad, the country's prospects remain positive due to stable macroeconomic fundamentals and a sound financial system steered by prudent fiscal management of the Bangko Sentral ng Pilipinas, which is essentially the core of its ability to cushion external volatility.

## The Philippine Stock Exchange Growth Initiatives

The Philippine Stock Exchange (PSE) acknowledges how quickly the financial industry landscape has changed in the last decade and how it continues to evolve, which is why the exchange adopted a strategic roadmap that is responsive to opportunities as well as risks that may come about in the medium to long term. As the PSE continues to build capacity to achieve its strategic goals, the market is projected to ultimately benefit from having a stronger and more efficient stock exchange.

The PSE continues to advance in terms of development of new products and services, while adding a stronger focus on measures to widen the investor base and capacity-building activities geared towards a holistic transformation of the enterprise. These three themes comprise the PSE's strategic plan which aims to ensure that the growth experienced by the Philippine stock market in the past several years remains sustainable and can be built upon for the years to come.

### Development of products and services

To continue the PSE's improved performance and to be at par with its ASEAN counterparts, the PSE envisions building a one-stop shop by offering a complete suite of products and services for market participants. This would also make the PSE more efficient and attractive to investors.

The next few years are expected to become transformational for the PSE, as a number of key initiatives are seen to significantly drive the growth of the Philippine capital markets.

- Acquisition of PDS Group.** The PDS acquisition is also seen to have a major impact on the PSE in 2018. With the consolidation of the equities and fixed income markets into one exchange, the Philippine capital market will become more competitive vis-à-vis other markets in the region in attracting investment flows. Additionally, the synergies to be realized in the integration of the two exchanges are expected to create efficiencies that will allow for the introduction of more products and enhanced risk management processes. These efficiencies are seen to redound to benefits for investors and market participants, including lower costs, ease of access, and greater business opportunities, among others. Consolidation efforts will cover a wide range of business areas, including market operations, post-trade, surveillance, corporate governance, product development, finance, and human resources.
- Short Selling.** The launch of short selling is expected to complement the Exchange's securities borrowing and lending program. The Short Selling Guidelines, which is currently slated for review by the Securities and Exchange Commission (SEC), sets out, among others, the eligible securities for short selling, the threshold for short interest ratio, duties and responsibilities of trading participants who engage in short selling, and Securities Borrowing and Lending procedures for short selling. The implementation of short selling is projected to unlock greater liquidity in the market by allowing investors to take short positions and by encouraging more securities borrowing and lending transactions. The PSE plans to implement short selling in the first quarter of 2018.
- Central Securities-based Lending.** To support the launch of short selling, the exchange plans to activate a central securities lending facility that can be tapped by investors who intend to either lend or borrow shares. Aside from providing an effi-

cient hub to connect borrowers and lenders, the centralized lending facility will also offer collateral management services for its users.

- **Name on Central Depository.** Name on Central Depository (NOCD) is a depository facility of segregating client holdings lodged with the Philippine Depository and Trust Corporation (PDTC) into individual sub-accounts reflecting the names of the clients in the PDTC system. This improves transparency by encouraging shareholders to have direct access to information on their stock holdings. The PSE and PDTC will actively implement and promote the NOCD service for investors. The campaign for increased lodgment of investor accounts in the depository will not only increase transparency but also lead to greater efficiencies in managing shareholder information.
- **Structured Warrants.** A structured warrant is a securitized derivative product which obtains its value from an underlying asset. It gives holders the right, not the obligation, to buy or sell the underlying asset at a predetermined price and time. Unlike a company warrant, a structured warrant is issued by a third-party, usually a financial institution. The SEC is currently finalizing its draft rules governing the registration and trading of structured warrants, while the PSE is working on its own regulations on the listing and trading of the said product.
- **New Indices.** At present, the PSE has eight indices. The PSE aims to enhance and add more to this roster, with the goal of attracting investment funds to create products benchmarked on the new indices. The exchange plans to create broad-based indices and thematic or style-based indices such as a high dividend yield index and Shariah index to further aid investors in their investment strategies. Related to this initiative is another project to revamp the current sector classification system that will be more responsive to the increasingly diversified businesses of listed companies and align sector assignments with global standards.

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#### Expanding the investor base

Increased participation in the stock market is viewed as a significant compo-

nent to sustaining the exchange's growth. While the PSE has managed to grow its investor base over the past decade, there continues to be a huge potential to create a more inclusive market given the vast Filipino population and burgeoning foreign appetite for local equities.

- **SME Access to Capital Markets.** The PSE hopes to tap more small and medium-sized enterprises (SME) to list. Several SME-related initiatives are undertaken by the exchange as part of its strategic agenda to foster new listings. The overall SME strategy includes identifying target and potential companies for listing, and allowing these firms to undergo a development and mentorship program that will prepare and equip them to become sustainable listed companies.
- **Enhanced Local Small Investor Program.** The PSE will also continue to leverage on the internet as a means of raising stock market awareness and making wealth creation more inclusive. One initiative seen to take advantage of the online space is the Local Small Investor (LSI) Program of the PSE, which promotes market inclusivity by encouraging the participation of local small retail investors in initial public offerings. The exchange is currently working on the automation of the LSI subscription process that will make it easier for investors across the country to participate.
- **Financial Literacy.** Financial literacy has long been one of the challenges of the PSE and may ultimately be the reason behind low investor participation in the local market. Investor education is a continuing process which is why the exchange continues to undertake initiatives to address the low market participation rate in the country. Banking on the internet and the social media trend, the exchange will continue to use these as mediums to enhance financial literacy among Filipinos.
- **Stock Market Webinars.** The Stock Market Webinar is an online campaign using an accessible, convenient, and web-based learning facility. The webinar is a one hour and thirty minute-presentation covering topics on basic stock market concepts, investment procedures, trading schedule, understanding stock

market quotations, and online trading. Webinars on ETFs, technical and fundamental analysis are also conducted. A live question and answer portion is likewise facilitated during the webinars. The PSE conducted 13 webinars in 2017 with an average of 483 participants per session.

- **PSE Cebu Market Education Campaign.** To sustain the interest of potential investors in Cebu City and Visayas, the PSE organizes monthly seminars and pursues company visits. The basic stock market seminar is recommended for interested market participants with minimal investment experience. PSE invites Cebu-based trading participants to conduct a presentation that will complement the PSE's presentation.
- **Stock Market Roadshows.** Part of the Exchange's financial literacy program is conducting free stock market seminars all over the country, particularly in areas far from the capital. The event features discussions from stock market practitioners on investing basics, products and services, investor rights protection, and online trading, among others. Another feature of the roadshow is the Broker Expo, wherein partner stockbrokerage firms of the PSE will have representatives on site to process account opening for new investors and answer questions on stock investing.

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#### Capacity building

As an enterprise that relies heavily on technology and human resources to ensure the stability of operations and efficiency of services, the PSE is committed to continue investing in best-in-class technology infrastructure and developing staff knowledge to service the growing needs of the market.

- **PSE Bell Awards for Corporate Governance.** The PSE values the importance of good corporate governance (CG) in the long-term success of the company, and aims to not just be internationally recognized as a role model for CG but also foster the same aspiration for listed companies and brokers. To encourage them to "walk the talk", the PSE Bell Awards for Corporate Governance, an annual awarding event, was launched five years ago to honor select listed companies and trading participants that establish outstanding records in

CG. For 2017, the exchange enhanced the Bell Awards criteria and mechanisms to focus on giving more weight in terms of audit compliance and CSR programs, going several steps beyond a company's usual compliance with prescribed CG guidelines.

- **Infrastructure Upgrades.** Building a strong technology infrastructure is vital to the exchange as technology forms a critical component in the company's operations and overall growth. As the market grows, the PSE has lined up initiatives to further enhance operational efficiency by automating processes, and to continue investing in tools and applications to strengthen business continuity and cybersecurity.
- **Transfer to New PSE Headquarters.** The exchange is also set to open the doors to its new home in Bonifacio Global City by early 2018, completing the physical merger of its Tektite and Ayala offices. The move to the new PSE headquarters provides the company with bigger spaces to conduct its operations and events, and situates the exchange in a newer business district that is home to many financial and technology companies, both established and emerging.

## Collaboration with Other Exchanges

In the past few years, strategic partnerships among stock exchanges have taken on greater importance than mergers and consolidation activities. Collaborative engagements have proven to be less complex and controversial, allowing exchange operators to focus more on adding value to their respective businesses.

The PSE is part of the ASEAN Exchanges collaboration, which meets regularly throughout the year to pursue various initiatives in promoting ASEAN as a single asset class. The PSE likewise regularly engages its counterparts in consultations across multiple areas of the business, including product development and regulation, to learn from the expertise and

experiences of other stock exchanges. The PSE's membership and participation in the World Federation of Exchanges also gives it access to a wide network of exchange operators, technology providers, international regulators, and financial experts that can be tapped to assist in the pursuit of PSE's strategic projects.

The main trading engine that is being used by the PSE is the NASDAQ-developed *PSEtrade XTS*. NASDAQ is a leading global provider of exchange systems with presence in over 100 markets globally. The Exchange's partnership with NASDAQ has been quite productive and satisfying, considering how it was able to switch over to the X-Stream trading system in less than a year and the said system's continued reliability since its launch in 2015. The Exchange also looks forward to utilizing modules available in the NASDAQ system upon launch of the new products currently in the pipeline. Meanwhile, the surveillance and disclosures systems used by the PSE are provided by the Korea Exchange.

On 7 December 2017, delegates from the Shenzhen Stock Exchange visited the PSE to promote cooperation between the capital markets of the Philippines and China. The visit provided both bourses an opportunity to discuss recent updates and developments in their respective markets and explore potential partnerships and areas for cooperation that will help strengthen ties between the two exchanges. The latest visit follows the Memorandum of Understanding signed by the two exchanges in 2009 initiating cooperation and information sharing in various areas including product development; rules and regulations; cross-border listing and trading; and market data management.

## Rising to Greater Heights

Picking up from a series of record-highs in the past year, the Philippine equities market is expected to continue its positive momentum in the next few years, with the benchmark PSEi seen to reach new record levels in 2018. The Philippines is again expected to be one of the top performing economies in Asia, supported by optimistic GDP growth estimates, flexible mone-

tary policies, an accelerated infrastructure spending plan, and rising foreign direct investments, among other factors. These factors, as well as the initiatives being implemented by the PSE, offer compelling reasons for investors to get excited about the prospects of the Philippine stock market in the coming months.

### Notes

- \*1 These companies are Del Monte Pacific, Manulife Financial Corporation and Sun Life Financial.

## THE PHILIPPINE STOCK EXCHANGE

The Philippine Stock Exchange (PSE) is a self-regulatory organization that provides and ensures a fair, efficient, transparent and orderly market for the buying and selling of securities. The exchange also offers a convenient and efficient venue in raising capital to support the growth of businesses.

Considered one of the oldest bourses in Asia, the PSE traces its roots back to the country's two former bourses – the Manila Stock Exchange (formed in 1927) and the Makati Stock Exchange (formed in 1963). The Manila and Makati bourses were unified on 23 December 1992 to form the PSE.

The advent of the Securities Regulation Code (Republic Act No. 8799) in 2000 introduced other structural changes. In August 2001, the PSE was demutualized and transformed into a stock, shareholder-based organization from a non-stock, member-governed entity. In December 2003, the PSE's shares were listed on the exchange by way of introduction, paving the way for the PSE to become a publicly-held company.

