

2023 Asian Capital Markets Roundtable (ACMR) Event Summary

On February 2, 2023, Nomura Foundation, in conjunction with Nomura Institute of Capital Markets Research, convened the Asian Capital Markets Roundtable (ACMR) on the theme of Capital Market Development for Sustainable and Inclusive Growth in Asia. Together with its publication of the *Nomura Journal of Asian Capital Markets* the Roundtable was part of Nomura Foundation's effort to support intellectual interactions among experts at think tanks, universities and government agencies in Asia.

The event, held at The Okura Prestige Tower in Tokyo, brought together experts from, Indonesia, Japan, Malaysia, the Philippines, Singapore, and Thailand to address the common challenges and policies for capital market development

in Asia as well as to share their knowledge and perspectives on the unique aspects of each country. The program consisted of opening remarks by Koji Nagai, President of Nomura Foundation, a keynote address, and three sessions in which panelists made presentations followed by general discussion.

This article summarizes the presentations and discussions based on the understanding of participants from Nomura Institute of Capital Markets Research. It covers the points that impressed Japanese researchers but is not necessarily a thorough or accurate summary of the event. The complete documents from the roundtable are posted on Nomura Foundation's website, <https://www.nomurafoundation.or.jp/en/capital/acmr20230202.html>.

ing private-sector money is indispensable. Private investor participation is limited, however, due to the gap between revenues from users of infrastructure and the return that investors seek.

This, then, brings the focus to the spillover effects of infrastructure. When infrastructure is developed, it will lead to new business opportunities or job creation and boost tax revenues. Governments can distribute part of the increased tax revenue to private investors.

The Way to Induce Private Financing into Green Investments and Green Bonds

Green energy projects are classified into large-scale ones such as hydro power and community level ones. The former raises funds from insurance companies and pension funds. The latter can lure investors through Hometown Investment Trust Funds.

Investors in environmental, social and governance (ESG) projects take into consideration ESG scores not just risk and return. Evaluation methods and criteria for determining ESG scores vary by institution. If greenhouse gasses were taxed, investors could just focus on after-tax return and risk to build an optimal portfolio.

SME Credit Data Analysis

Small and medium-sized enterprises (SMEs) account for a high proportion of employment in Asian nations and play an important role in each economy. SMEs generally have difficulty raising money from capital markets through issuing shares or corporate bonds. Also borrowing from financial institutions presents them with such hurdles as providing collateral, paying high interest on loans and a long assessment process.

There is asymmetry between the information on creditworthiness available on financial institutions and on SMEs. Credit guarantee institutions can collect data and construct credit risk databases for SMEs, which would allow them to borrow from financial institutions.



Keynote Speech: Infrastructure Finance, Green Portfolio Allocation and Digital Data Analysis in Asia

Naoyuki Yoshino, Professor Emeritus, Keio University and Former Dean and CEO, Asian Development Bank Institute

Professor Yoshino's speech addressed four issues related to financing infrastructure development as summarized below.

Spillover Effects of Infrastructure Investment and Sustainable Growth in Asia

An enormous amount of funds will be needed to develop infrastructure in Asia. It is currently financed mainly through fiscal spending by each government, but this is insufficient, and mobiliz-



Financial Sustainability after Covid-19: Rethinking of Domar Condition

Covid-19 has raised the significance of fiscal sustainability in Asia. Japan's government debt-to-GDP ratio is above that of Greece and is the highest in the world, but fiscal sustainability is maintained. What makes Japan different from Greece?

The Domar condition points to stabilization of national debt if the economic growth rate exceeds sovereign yields and to rising government debt if the growth rate is below the yield on government bonds. However, the Domar condition focuses on the supply-side of government bonds and does not take into account the demand side. It is important to consider the demand factor of who owns government bonds when evaluating fiscal sustainability.

Panel Discussion Session 1: The Role of Infrastructure Financing and ESG Activities by Capital Markets to Promote Sustainable Growth

Moderated by *Kahlil Rowter*, Senior Advisor, Finance Thematic Area, PROSPERA (Indonesia)



De-Risking Infrastructure Projects: Challenges for Attracting Global Financial Resources, Learning from Indonesia Toll Road Development

Danang Parikesit, Head, Indonesia Toll Road Authority, Ministry of Public Works and Housing & Professor of Transportation, Universitas Gadjah Mada (Indonesia)

Indonesia's toll road development has been underway since the late 1970s. Measures to reduce risk in order to attract private capital are key to toll road development projects. Indonesia Toll Road Authority, Ministry of Public Works and Housing, is a model case for other Public Private Partnership (PPP) projects.

Infrastructure is a resilient sector. The pandemic wasn't necessarily the cause for declining demand for toll roads and revenues. The main reason was government policies restricting activities.

Innovation is important to make toll roads sustainable. The pandemic helped accelerate innovation in terms of financial, technological, value creation and governance perspectives.

Financing Sustainable Infrastructure through Private Participation and the Capital Market –Malaysia's 40-year Journey

Hee Kong Yong, Senior Advisor, ASEAN Ad-

visory (Malaysia)

Malaysia has promoted infrastructure development since the early 1980s, building high-quality and sustainable infrastructure across the country. Toll roads in Malaysia cover some 2,000km.

Utilizing private capital is key to infrastructure development. Malaysia implemented measures to utilize PPPs in its five-year plans for economic development.

For domestic PPP projects, funds are raised through equity, loans, project bonds and other means while domestic capital markets are being developed.

Sharpening and Fine Tuning Our Fiscal Tools for Sustainable and Resilient Growth

Zeno Ronald R. Abenoja, Undersecretary, Department of Finance (The Philippines)

In the Philippines, infrastructure investment is continuing while restraining government debt. The country's fiscal deficit expanded in 2022 as revenues shrank due mainly to the impact of Covid-19.

The government is supporting the development of infrastructure to build back better from the pandemic. For that, it is vital to strengthen innovative funding tools such as sustainable finance.

The government is constructing a

framework to issue green, social, and sustainability bonds and plans to take relevant measures in the future.

Sustainability Issues in Japan and Prospects for Sustainable Finance

Akane Enatsu, Head, Nomura Research Center of Sustainability, Nomura Institute of Capital Markets Research (Japan)

Financial markets play an important role in realizing sustainable society. For instance, ESG investment is expanding around the world and in Japan. Sustainability-related financial products are also growing such as green bonds, social bonds, sustainability bonds, green loans, sustainability linked loans/bonds and transition bonds/loans.

Issues related to sustainable finance that need to be addressed by Japan include the environment, gender equality, reducing inequality, and responsibility in production and consumption. It is important for all stakeholders from governments, corporations, investors, and financial institutions to citizens to face sustainability challenges as their own issues and address them.

Discussion Points

This session revealed that challenges each country faces in infrastructure development vary according to domestic



financial and capital markets as well as local fiscal conditions.

In Indonesia, the significance of reconciling interests among stakeholders such as users of infrastructure and domestic and foreign investors was raised as key for fund procurement.

In Malaysia, the panelist expressed the view that development of capital markets denominated in the domestic currency to avoid the risk of currency mismatch is vital for fund-raising for infrastructure development.

In the Philippines, use of sustainable finance to raise money was introduced to manage both fiscal sustainability and infrastructure investment.

While the need for infrastructure development remains in Indonesia, Malaysia and the Philippines, Japan, which had developed many infrastructure projects during its high growth period, is now focusing mainly on addressing renewing or optimizing existing infrastructure. PPP is sometimes used for these efforts, such as in the successful case of Shiwacho in Iwate Prefecture. However, as the panelist pointed out, public-private cooperation doesn't guarantee a positive result depending on the business content.

Panel Discussion Session 2: The Potential of Fintech and Financial Innovation in Capital Markets for Asian Economies and Society

Moderated by *Tetsuya Kamiyama*, Senior Analyst, Nomura Institute of Capital Markets Research (Japan)

Fintech Development in Indonesia's Capital Market

Fithri Hadi, Former Director, Indonesia Stock Exchange and Former Director, Digital Finance Innovation Group, Indonesia Financial Services Authority (IFSA) (Indonesia)

Digital technology innovation has brought many benefits to capital market participants. For instance, the introduc-

tion of equity crowdfunding (ECF), which connects equity issuers and investors via an internet platform, has enabled SMEs to raise capital more flexibly than through traditional means.

The introduction of fund supermarkets, which offer a wide range of mutual funds from different asset management companies, has provided one-stop service for digital-savvy investors.

Other digitalization efforts include online account opening (electronic Know Your Customer or e-KYC) and electronic initial public offering (e-IPO) systems that digitalize the IPO process for companies.

Digital Agenda for the Capital Market in Malaysia

Chin Wei Min, Former Executive Director, Securities Commission (Malaysia)

Securities Commission Malaysia set four objectives to promote digitalization for the capital market: 1) enhance access to financing; 2) increase investor participation; 3) augment institutional market; and 4) develop synergistic ecosystems.

To enhance access to financing, regulatory frameworks related to ECF, peer-to-peer (P2P) financing and Initial Exchange Offering (IEO) have been launched since 2015. To increase investor participation, a framework to allow services by robo-advisors, Digital Investment Management, was launched.

A degree of achievement has been observed in each area. However, there are still some issues, such as who will be accountable when problems arise from the use of artificial intelligence (AI).

Financial Innovation in the Philippine Capital Market

Ramon S. Monzon, President and CEO, The Philippine Stock Exchange, Inc. (The Philippines)

The popularity of Fintech is growing in the Philippines. Electronic payment service is a leading sector. As Bangko Sentral ng Pilipinas (BSP) lays out regulations to support digital banks, electronic money (e-money) issuers and virtual asset service providers (VASPs), the number of Fintech companies registered at the BSP is rising.

The Philippine Stock Exchange (PSE) has created a platform, in cooperation with leading electronic payment service providers and securities companies, to offer a one-stop service for retail investors to

conduct e-payments or stock trading. The PSE is also developing a platform for retail investors to enable them to access comprehensive information about the domestic stock market as well as an IPO subscription application for local small investors.

Digitalization initiatives are also being undertaken in the fixed income market. For example, digital bonds utilizing blockchain technology were issued, and the government is aiming to offer government bonds to retail investors more efficiently through a blockchain-based mobile application.

Financial Service Innovations and Initiatives in Thai Capital Market

Pakorn Peetathawatchai, President, Stock Exchange of Thailand (Thailand)

The Stock Exchange of Thailand (SET) provides not only traditional assets but also digital assets that utilize blockchain technology. Diversification and decentralization are benefits of digital assets, while concerns such as high volatility, regulatory uncertainty and cyber risk remain.

The SET is engaged in promoting sustainability, such as by collecting ESG data and offering ESG index in order to promote ESG investment. It is also building infrastructure for carbon credit trading.

The SET is aiming to introduce a one-stop online trading platform connecting investors and listed companies. The platform is expected to provide investors access to comprehensive services from issuing traditional and digital assets, trading, settling, and depositing.

Discussion Points

Japan and the four countries represented in the panel all seek to use Fintech and financial innovation to promote participation in capital markets and enhance convenience for consumers. From the perspective of financial inclusion, Indonesia, Malaysia, The Philippines, and Thailand differ from Japan as they see Fintech and financial innovation as an important means to provide financial services to the underserved citizens.

Digital assets are still in their infancy in each country as is also the case in Japan. Issues remain in subjecting digital assets to regulation and inspection. On the business front, while there are some cases of financing for micro entities, it remains a challenge to increase such cases and de-

velop micro-financing as a market.

On whether Fintech is a disrupter or can co-exist and prosper together with traditional finance, every country sees it as supplementary to traditional finance that adds value for consumers through sound competition. At the same time, some participants noted the need for appropriate regulatory oversight for risk.

Panel Discussion Session 3: The Importance of Pension Systems and Asset Management in Preparing for Population Aging in the Region

Moderated by Joseph Cherian, Practice Professor of Finance, Asia School of Business and Cornell University (Visiting) (Malaysia)

The Implications of Rapid Population Ageing on the Economic and Financial Sustainability of Singapore's Pension System

Christopher Gee, Senior Research Fellow,

Institute of Policy Study, National University of Singapore (Singapore)

Singapore is facing a rapidly ageing population with those aged over 65 years expected to account for more than 25% of the population in 10 years. Singapore's Central Provident Fund (CPF) is the top-ranked pension system in Asia. But it cannot be compared simply with pension systems in other countries.

CPF works on the Escalating Plan whereby pension benefit payouts increase as CPF members age. While this plan can hedge pension benefits against inflation, it does not offer full protection. Longevity protection is also a challenge. There may be room for improvement here.

CPF generally is working well for Singaporean nationals. CPF members can use their CPF savings not only for retirement but also for home purchase or healthcare. However, it may be difficult for the self-employed or freelance workers to secure sufficient savings to meet retirement or other needs just from CPF.

Capital Markets and the Asset Management Industry in Malaysia: An Understanding of Structural and Individual Barriers to Long-term Savings

Azleen Osman Rani, Director, Institute for Capital Market Research Malaysia (Malaysia)

Labor market problems such as low wages and high youth underemployment and gaps in social protection such as low

social insurance coverage are cited as factors affecting individuals' long-term savings. Capital markets play an important role in structurally upgrading the economy and augmenting the retirement savings system.

Malaysia offers Employees Provident Fund (EPF) for workers. The majority of EPF members aged over 40 have not achieved the savings target needed to secure funds after retirement. The shortfall could be aggravated as the pandemic led to early withdrawals from EPF.

According to a survey on individual investment behavior by the Institute for Capital Market Research, gender, household income levels and source of income affect people's attitude toward investments and the actions they take.

Philippine Social Security System: Solvent, Stable and Dynamic

Edwin Shea Pineda, Former Senior Economist, School of Economics, University of Asia and the Pacific (The Philippines)

The Philippines has pension schemes for private-sector workers and for government employees. The former is managed by Social Security System (SSS) and the latter by Government Service Insurance System (GSIS).

The Social Security Fund posted a net loss in 2021. One reason for the rise in expenditure was an increase in death benefits as Covid-19 related deaths exceeded forecast.

It is worrying that the country's total



fertility rate is falling. The rate fell from 4.1 in 2013 to 1.9 in 2022, below the global average. If this trend continues, the current pension system may not be sustainable.

Progress and Key Challenges in Thailand Pension System: What Can Be Done to Create Sustainable and Adequate Pension Provisions for All

Roongkiat Ratanabanchuen, Assistant Professor, Department of Banking and Finance, Chulalongkorn Business School (Thailand)

Thailand's pension system could be one of the most complex in the world. Workers are classified into formal and informal sectors. In the formal sector, there are pension schemes for government employees while the majority of private-sector employees are members of the Social Security Fund (SSF). The coverage rate of the voluntary Provident Fund is rising but is still at a low level.

The public pension coverage rate is low among workers in the informal sector. A National Savings Fund (NSF) has been introduced but there still are many workers who do not participate in either SSF or NSF.

Asset allocation by Thailand's pension schemes is still largely concentrated

in relatively low-risk, low-return government bonds. Investment in foreign assets, however, is expanding.

Japanese Pension System: Current Status and Need for Further Reform

Akiko Nomura, Managing Director, Nomura Institute of Capital Markets Research (Japan)

In Japan, enhancing sustainability of the pay-as-you-go public pension system has become a priority amid the country's ageing population. Private pension plans will play a larger role in enhancing pension adequacy and supplementing the public pension system.

Private pension plans are voluntary, and coverage has not grown sufficiently over the past two decades. Boosting their coverage is a challenge.

The prevalence of defined-contribution (DC) plans is increasing in private pension schemes. Participants direct investment of their DC account assets. By doing so they may gain experience in diversifying investment over the long term and improve their financial literacy.

Discussion Points

In the context of population ageing, a major theme of this session, it was striking

to learn that the total fertility rate has already fallen below 2 in the Philippines, whose general image is of a young country in Asia with a high birth rate. The lesson from Japan which faces the highest ratio of aged population is to introduce measures as early as possible to support building assets and deal with longevity risk. Boosting financial literacy for individuals should also be addressed along the way.

A participant from the floor pointed out that raising the retirement age could be a way to ease the impact of a declining birth rate and ageing population. The retirement age in Singapore is being raised and Thailand is also considering an increase. Japan is pursuing a gradual increase toward age 65. Each country is addressing this issue based on its social and economic circumstances.

Various challenges each country faces were shared. Even in Singapore which has the top-ranked pension system in Asia, measures for filling the gap are needed as the system cannot provide sufficient pension benefits for everybody. Malaysia's EPF is faced with the issue of early withdrawals and strengthening efforts to improve public understanding. Thailand's important task is to enhance pension coverage, and several proposals such as a mandatory occupational pension fund are on the table.

