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How ESG Can Contribute to the Development of the Thai Economy

Introduction

Sustainability has significantly caught the attention of legislators, governments, regulators, asset managers and investors worldwide as indicated by the increasing amount of funds being allocated to sustainable finance in recent years. The matter was spurred by international agendas, particularly the Paris Agreement and the United Nations (UN) Sustainable Development Goals (SDGs) which have guided many countries to develop their own regimes such as the EU Action Plan on Financing Sustainable Growth, the UK Stewardship Code, the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD) and China's green credit ratings. The UN Principles for Responsible Investment (UN PRI) recorded a 31% increase in assets under management (AUM) from USD68.4 trillion in 2017 to USD89.7 trillion in 2018. Furthermore, the International Organization of Securities Commissions (IOSCO) report also indicates an upward trend in commitment to incorporate Environmental, Social and Governance (ESG)

elements in terms of investment analysis and process by institutional investors. The growth in sustainable investing has been driven by both retail and institutional investors, as seen in their concern with the impact of climate-related risks and opportunities on investment returns. In response to these demands, providers of market information, including MSCI, FTSE, STOXX and Dow Jones, have developed sustainability indices and financial products such as green bonds to serve investors' needs.

The opportunities and benefits of sustainable finance have been recognized by policy makers, regulators and market participants in the Association of South-east Asian Nations (ASEAN) capital market. The region is in the process of allocating and creating viable projects for ESG investment to achieve a holistic ecosystem and create an ESG investment destination through the ASEAN Capital Markets Forum (ACMF) framework. Meanwhile, domestic interests will be formed to serve investors' demand such as an alignment with ESG-related standards. With the objective of having ASEAN-listed companies as an investable vehicle, in 2011 the ACMF launched the Corporate Governance (CG) scorecard, which includes ESG elements in the methodology for CG scorecard assessment in ASEAN in order to raise the CG standards and practices of publicly listed companies in ASEAN. Furthermore, the ACMF, in cooperation with the International Capital Market Association (ICMA), adopted ASEAN Green, Social and

Sustainable Bond Standards in 2017 and 2018.

Thailand's capital market has been keeping up with various changes and fast paced developments to universalize its standards on sustainability and supervision of market participants along with increasing the public's awareness of ESG. The Stock Exchange of Thailand (SET) has been promoting the quality of Thai listed firms through establishing the Thailand Sustainability Investment (THSI) list and the SETTHSI Index in 2015 and 2018, consecutively. These initiatives include listed companies which achieve outstanding performance on an annual assessment of ESG standards.

Listed companies have long been considered the backbone of Thailand's economy, accounting for 103% of the country's gross domestic product (GDP), and 18% of ASEAN's GDP in terms of market capitalization in 2018. As they have been gaining global recognition, Thai listed companies have pursued an integral role in contributing to the economy's sustainability by emphasizing the importance of ESG practices as they move from basic CG to issues of environmental and social responsibility.

Thai listed companies have been encouraged to operate their businesses on a sustainable basis with a focus on social responsibility and good governance in order to inspire other businesses in the move towards sustainability. They are required to disclose information that reflects social responsibility in their sustainability

reports, annual reports, or the annual registration statements as well as to provide information on greenhouse gas emissions and measures of greenhouse gas reduction since this information will be useful to investors who are increasingly interested in companies with a sustainable business growth strategy. In 2018, there were a total of 704 companies listed on the stock exchange with a combined profit of USD29 billion, accounting for 5.9% of the country's GDP. The total revenue of Thai listed firms has grown constantly from 2016, reaching USD406 billion in 2018, which is equivalent to over 80% of the country's GDP. Consequently, incorporating ESG efforts in the agenda of listed companies will create sustainability for the whole system, as listed firms are still of prime importance to the economy.

The ongoing challenges for listed companies are to quickly respond to investor demand and changing trends in the capital market and real economy as well as to maintain accountability to attract global investors to support sustainable economic growth in the region.

Building the Supply Side through Sustainability of Listed Companies

The core of ESG development is to have listed companies embrace ESG issues for the sake of their own sustainability. In this regard, the board of directors of listed companies can play a crucial role by recognizing the importance of ESG and considering it when formulating the company's strategy, risk management, and monitoring plans thereby putting the company on a sustainability pathway. Rather than adding regulations to force listed companies to adopt ESG concepts, the Securities and Exchange Commission, Thailand (SEC Thailand) has played the role of providing guidance, as well as raising awareness, disseminating knowledge and providing training and education on sustainability issues.

CG in substance and CG Code

To pave the way for the sustainable development of listed companies, the SEC Thailand has encouraged listed companies to put good CG into practice, or, as it

is called, "CG in substance". In 2016, the SEC Thailand together with SET and representatives from listed companies developed a revised version of the CG Code as a guideline for boards of directors of listed companies.

This CG Code was based on the SET Principles of Good Corporate Governance for Listed Companies 2012 and revised to reflect current international standards and trends by focusing on the roles and responsibilities of boards of directors. The revised CG Code consists of 8 principles (Table 1).

The revised CG Code was launched in 2017 on an 'apply or explain' basis whereby company boards are encouraged to apply each Principle and Sub-Principle that are suitable to the company's business. If any of the Principles or Sub-Principles cannot be applied or are not applicable, the board shall provide an explanation.

After launching the CG Code, the SEC Thailand conducted a survey of listed companies in 2017 and found that 68% of 167 respondents would adopt the revised CG Code. It is hoped that this initiative encourages boards of directors to adopt CG in substance. The outcome of this initiative is expected to be revealed to the public in early 2020.

Framework for disclosure

CG disclosure is another mechanism initiated by the SEC Thailand. Prior to 2018, companies had been required to disclose information in the annual report and Form 56-1 in accordance with the CG principles on a 'comply or explain' basis, so that investors could easily access the information presented in an easy to understand format. In accordance with the CG Code launched in 2017, from 2018 onwards companies are required to dis-

close information in accordance with the revised CG principles on an 'apply or explain' basis.

Visibility enhancement

- Corporate Governance Report:** Domestically, the Corporate Governance Report (CGR) developed by the Thai Institute of Directors (Thai IOD) has encouraged listed companies to focus on improving their CG. Evaluation is based on the extent of compliance with the CG principles and publicly disclosed information. The CGR gives ratings of one to five stars and discloses the names of companies with three stars and above. In 2018, of over 700 listed companies, 139 (125 in SET (main board) and 14 in Market for Alternative Investments (MAI)) received 5 stars, while 238 received 4 stars and 174 companies received 3 stars.
- SETTHSI Index:** In 2018, with development support from other organizations including the SEC Thailand, SET launched the SETTHSI Index which is comprised of listed companies selected from THSI list. Companies on the THSI list must score above 50% on the voluntary sustainability assessment or have already been included in the Dow Jones Sustainability Indices (DJSI), one of the most globally recognized sustainability indices. They are also required to meet criteria on CGR, company qualifications, shareholder equity, net profit and impact on ESG.

SET has steadily promoted the THSI list and the SETTHSI Index as

Table 1: CG Code Principles

	Description
Principle 1	Establish clear leadership role and responsibilities of the board.
Principle 2	Define objectives that promote sustainable value creation.
Principle 3	Strengthen board effectiveness.
Principle 4	Ensure effective CEO and people management.
Principle 5	Nurture innovation and responsible business.
Principle 6	Strengthen effective risk management and internal control.
Principle 7	Ensure disclosure and financial integrity.
Principle 8	Ensure engagement and communication with shareholders.

Source: Corporate Governance Code for Listed Companies 2017 (SEC Thailand)

well as announcing the next series. In 2018, number of listed companies included in the THSI increased to 73 with total market capitalization of USD320.9 billion, representing 59.8% of the combined SET and MAI market capitalization of USD536.7 billion (as of October 2018). In June 2018, SET announced the list of 45 companies to be included in the SETTHSI Index.

- **Dow Jones Sustainability Index:** In terms of visibility in international markets, Thai listed companies have been included in the DJSI since 2012. Between 2012 and 2018, the number of listed companies included in the DJSI World index increased from 2 to 8 and in the DJSI Emerging Markets index increased from 3 to 20.

Market capitalization of Thai listed companies in the DJSI World index tripled from USD45.8 billion in December 2012 (12.3% of total market capitalization) to USD138.2 billion in December 2018 (27.5% of total market capitalization) (Figure 1).

Meanwhile, market capitalization of Thai listed companies included in the DJSI Emerging Markets index increased over four times from USD55.5 billion in December 2012 (15% of total market capitalization) to USD231.1 billion in December 2018 (46% of total market capitalization).

Promoting Green, Social and Sustainability Bond Issuance

Green bond

Global challenges such as climate change, air pollution and poverty have been recognized by various industry bodies, including bond markets. In 2007, the first ever green bond was issued by the World Bank after a group of European pension funds wanted to invest in climate-friendly products. The World Bank connected the dots and created a new way to direct financing from investors to climate projects. Since the first green bond was issued, the value of global green, social and sustainability bonds issuance amounts to around USD150 billion, with ASEAN issuance accounting for USD4 billion.

Over the past few years, Thailand has made significant improvements related to green bonds. In 2018, the SEC Thailand developed green bond regulation, based on the ICMA Standard which has four components including:

- 1) Use of proceeds;

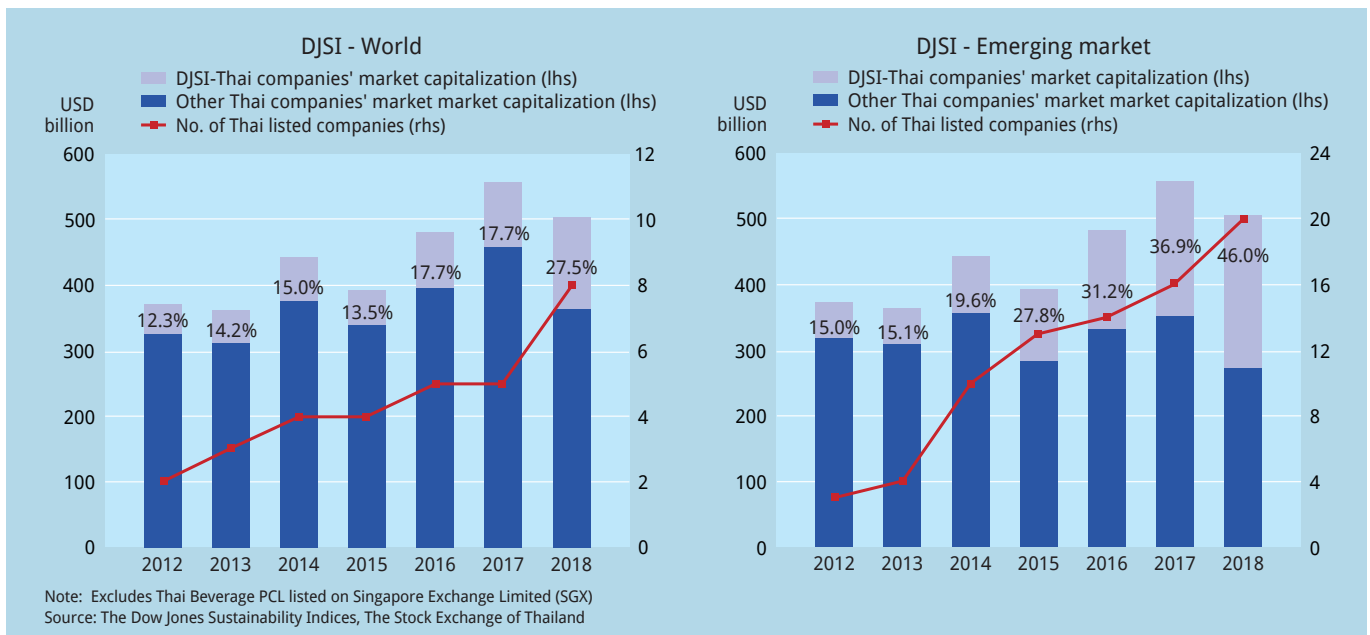
- 2) Process for project evaluation and selection;
- 3) Management of proceeds; and
- 4) Reporting.

In December 2018, B. Grimm Power Public Company Limited (BGRIM), one of Thailand's leading private power producers was the first private company in Thailand to launch a green bond, with an issue worth USD161 million purchased entirely by the Asian Development Bank (ADB). BGRIM was also the first Thai private company issuer that was certified by Climate Bonds Initiative (CBI), a not-for-profit international organization working for climate change solutions. TMB Bank Public Company Limited (TMB) was the first commercial bank to launch a green bond with an issue worth USD65 million and sold to International Finance Corporation (IFC), a member of the World Bank Group in 2018.

The way forward for social and sustainability bond

To encourage the issuance of bonds to raise capital for social and sustainability projects in Thailand, the SEC Thailand is developing regulations for social and sustainability bonds, including the issuance process and disclosure requirements, in line with international standards such as the ASEAN Social and Sustainability Bond Standards under the ACMF and ICMA. The regulations will come into effect by the

Figure 1: Number and Market Capitalization of Companies Included in DJSI



end of 2019. The SEC Thailand believes that clarity of products labeled “green,” “social” or “sustainability” can increase investor demand for, and consequently supply of, products. Currently, the first sustainability bond aligned with ASEAN Sustainability Bond Standards under the ACMF was issued in 2018 by Kasikorn Bank Public Company Limited (KBANK) worth USD100 million. The whole amount was offered to institutional investors via the bank’s Hong Kong branch.

Creating Demand and Market Force from Institutional Investors

Investment Governance Code (I Code)

Recognition of the importance of institutional investors in driving the governance of listed companies has significantly increased around the world, including in Thailand. In Q1/2019, local Thai institutional investors held 12% of the value

of SET, almost double their share in 2012 (Figure 2). Institutional investors have become one of the most significant equity owners and key influencers in the capital market.

The global market recognized the importance of institutional investors and started to adopt a stewardship code as a guideline to promote an active role for institutional investors to act for the best interests of their beneficiaries. The code includes obligations in a number of key governance areas such as conflicts of interest and also the consideration of ESG.

The SEC Thailand has also recognized the importance of a stewardship code and adopted the I Code in 2017. The I Code was modeled on the UK Stewardship Code which contained investment governance principles and guidance reflecting current international standards and best practices for responsible and effective stewardship over investments by institutional investors (Table 2). Engagement with stakeholders such as the Office of Insurance Commission, Government Pension Fund, Social Security Office, the Association of Investment Management Companies, directors and management of asset management companies was carried out before developing

this I Code.

I Code signatories

Since it was launched by the SEC Thailand in 2017 the I Code now has 59 signatories, including 26 asset management companies, 14 life/non-life insurance companies, 11 provident funds, 3 securities companies and 5 government agencies/association/other institutes. These 59 signatories have total AUM of around USD307 billion, or approximately 61% of GDP. The signatories regulated by the SEC Thailand are required to notify their I Code disclosures and any updates to the SEC Thailand. The list of the SEC Thailand-regulated signatories will be published on the SEC Thailand website for the benefit of the investors.

Thai CG Fund

In 2017, the Federation of Thai Capital Market Organizations (FETCO), a group of asset management companies, Thailand Development Research Institute (TDRI), and organizations and foundations that work in the area of corporate governance launched the “Thai CG Fund”. The fund has a policy to invest in listed companies in both SET and MAI that have good CG and have passed the screening by CG Scoring rank of the Thai IOD and Collective Action

Figure 2: Holding Value of Institutional Investors

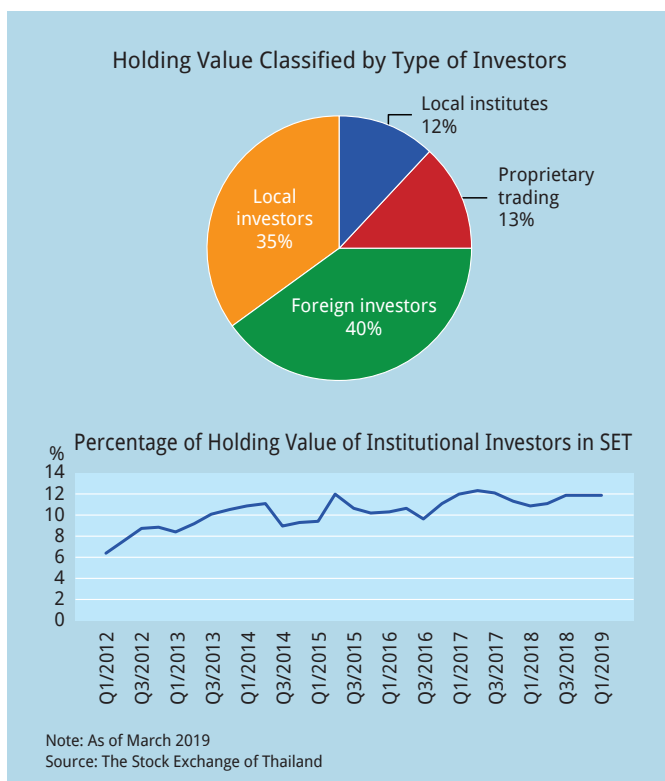


Table 2: The Principles of the I Code

	Description
Principle 1	Adopt a clear written investment governance policy.
Principle 2	Properly prevent and manage conflicts of interest and prioritize advancing the best interest of clients.
Principle 3	Make informed investment decisions and engage in active ongoing monitoring of investee companies.
Principle 4	Apply enhanced monitoring of and engagement with the investee companies if monitoring pursuant to Principle 3 is considered insufficient.
Principle 5	Have a clear policy on exercising voting rights and disclosure of voting results.
Principle 6	Act collectively with other investors and stakeholders as appropriate.
Principle 7	Regularly disclose the investment governance policy and compliance with the policy.

Source: I Code for Institutional Investors (SEC Thailand)

Coalition of the Private Sector Against Corruption (CAC) companies. Currently, 11 asset management companies have joined this initiative with a net asset value of USD191 million, or approximately 1.4% of overall net asset value of funds in Thailand (Table 3).

ESG Development under the ACMF and the Way Forward

At the ASEAN level, the importance of integrating the ESG factors into investment decision-making and risk management processes of listed companies has been well recognized among ASEAN capital market regulators. In 2011, the ACMF with support from the ADB introduced the ASEAN Corporate Governance Scorecard (ASEAN CG Scorecard) based on the Organisation for Economic Co-operation and Development (OECD) principles with the key objectives of raising CG standards and practices, enhancing visibility and investability of ASEAN listed companies, and promoting ASEAN as an asset class as well as improving investor confidence. In response to the update of OECD principles

and recommendations on CG, the ACMF has revised the methodology with the introduction of independent external validation in addition to the existing peer-review process. The group has also put great effort into enhancement of the CG of listed companies in ASEAN via the creation of the ASEAN CG Conference and Award which is seen as a key mechanism to raise awareness and promote the high quality of ASEAN listed companies. The top 50 ASEAN listed companies announced in 2018 were selected from 570 participating listed companies from Indonesia, Malaysia, the Philippines, Singapore, Vietnam and Thailand, up from 555 companies in the previous round.

Sustainability/ESG indices have been developed in ASEAN capital markets such as FTSE4Good Bursa Malaysia Index, SRI-KEHATI Index, SGX Sustainability Index. In April 2016, FTSE Russell together with ASEAN Exchanges initiated the new ESG index called FTSE4Good ASEAN 5 Index, which consists of the listed companies on the five ASEAN exchanges with recognized sustainability and ESG practices, namely Singapore, Indonesia, Malaysia, the Philippines and Thailand. At present, the countries with the largest presence in the 104-company index of ASEAN listed companies are Thailand and Malaysia, with 33 companies each (Figure 3). However, market size, stage of development of the companies and cost of assessment remain key challenges for small

firms to be included in the asset class.

Other than the equity element, the ACMF, in cooperation with ICMA, adopted the ASEAN Green Bond Standards in 2017 and Social and Sustainability Bond Standards in 2018. Currently, there are 8 issuances aligned with ASEAN Green Bond Standards from the Philippines, Singapore, Malaysia and Thailand as well as 1 issuance aligned with ASEAN Sustainable Bond Standards issued by a Thai company in 2018. Throughout 2018, The ACMF also held stakeholder engagement sessions throughout 2018 including conferences, roundtables, and roadshows to promote and enhance awareness about the ESG initiatives of the ACMF.

In 2019, the year of Thailand's ASEAN Chairmanship, under the theme of "Advancing Partnership for Sustainability" and its goal to enhance connectivity, sustainability and resilience as key pillars of financial cooperation in ASEAN, the ACMF proposed a building block to strengthen sustainable capital markets as a driver for sustainable growth in the regional economy by creating the Roadmap for ASEAN Sustainable Capital Market (the Roadmap). The Roadmap will set a concrete direction for regulators to create an ecosystem for sustainable capital markets as well as to enhance the capital market. In this regard, in April 2019, the 23rd ASEAN Finance Ministers' Meeting (AFMM) also endorsed the development of the Roadmap and its future implementation.

The Roadmap has been built on 3 broad strategic directions that may be revised in accordance with the changing environment and development of capital markets as well as 5 mechanisms to build market force and ASEAN-wide participation as follows:

- **3 Broad Strategic Directions**
 - 1) To define common sustainability elements that could be applied by ASEAN market players in catering to the needs of investors worldwide.
 - 2) To work with capital market information providers and institutional investors to create products that promote market force for sustainability.
 - 3) To enable companies of all sizes and economies of all stages of development to benefit from the initiatives.

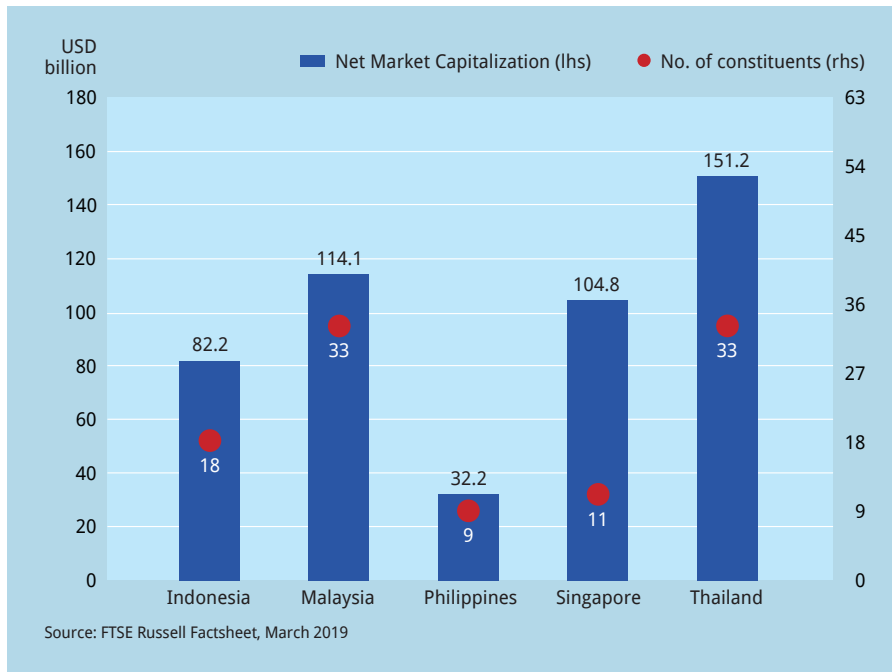
- **5 Mechanisms**

Table 3: CG Fund Thailand Report

Asset Management Company	Fund Code	NAV (as of Dec. 2018) (USD million)	NAV (as of Jan. 2019) (USD million)
BBL Asset Management	B-THAICG	15.0	15.6
Bangkok Capital Asset Management	BMSCG	16.7	18.0
Kasikorn Asset Management	KTHAICGRMF	5.6	6.1
Krungsri Asset Management	KFTHAICG	4.0	4.2
Krung Thai Asset Management	KTBTTHAICG-A	25.0	25.8
MFC Asset Management	M-SELECTCG	2.7	2.7
SCB Asset Management	SCBTHAICGP (for institutional investors)	1.0	0.02
TISCO Asset Management	TISESG-A	1.4	1.5
TMB Asset Management	TMB-THAICG	50.0	51.7
UOB Asset Management	UTHAICG	50.3	53.2
Talis Asset Management	TLEQ-THAICG	0.8	0.8
Total		187.1	191.7

Note: As of 12 February 2019
Source: CG Fund Thailand Report

Figure 3: Breakdown in FTSE4Good ASEAN 5 Index by Country



In response to the 3 broad strategic directions as well as to eventually build market force and to create ASEAN-wide participation in the capital markets for sustainable development, 5 mechanisms are therefore derived. The proposed mechanisms include ESG information and disclosure standards, analytics tools, investor engagement, soft intervention and

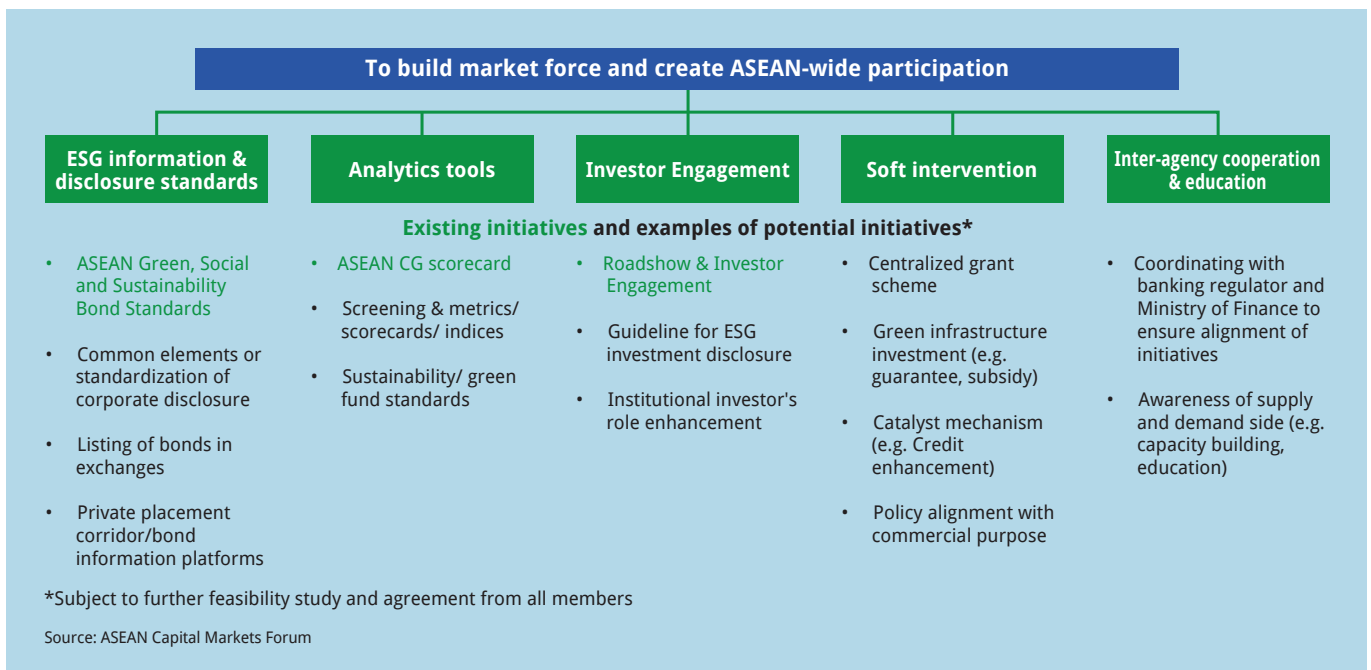
inter-agency coordination and education. The examples of both existing and potential initiatives to serve each mechanism have been discussed and subject to further feasibility study before integrating into the ACMF implementation plan. (Figure 4). As for the next step, the ACMF will continue the existing and on-going initiatives already agreed among the members

and conduct further feasibility study of potential initiatives under the Roadmap with an aim to ensure the efficiency of the implementation stage.

Conclusion

Continued development of the Thai economy is driven to a very large extent by activities of companies that are listed on SET. In this connection, it is of utmost importance that these companies play key roles in the sustainability of the economy and the country itself. But in order to drive forward the issues of sustainability there must be a multi-pronged approach to promote awareness from within the companies themselves and to develop a complete ecosystem that will create a long-term roadmap in this area. Regulations alone cannot provide all the answers. Rather, all the stakeholders, whether they be companies that raised funds from the public, market intermediaries who facilitate both-fund raising and investment from the public, investors both institutional and retail, all have significant parts

Figure 4: 5 Mechanisms to Drive Sustainable Capital Market



to play. Government agencies and central banks as well as capital market regulators also need to join hands in creating proper incentives and encouragement so that the issues of sustainability will be placed on the national agenda. Only then can we ensure that the capital market will succeed in its mission of creating a sustainable economy for the well-being of the people of the country.

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Mr. Sucharitakul was Secretary-General of the Securities and Exchange Commission, Thailand (SEC Thailand) from May 2015 to April 2019 and also served concurrently as the Chairman for Capital Market Supervisory Board during his term.

Mr. Sucharitakul joined the SEC Thailand at its establishment and devoted 13 years of his career to capital market development and supervision. He left the SEC Thailand in 2005 to take on several positions in private and public organizations, where he gained extensive experience in policy making, consultancy and management. Some of his previous posts include member of the Board of Governors of the Stock Exchange of Thailand, director of the Thailand Futures Exchange, director of the Federation of Thai Capital Market Organizations, director of the Thai Institute of Directors Association, director of KASIKORNBANK Plc., executive chairman of KASIKORN Securities Plc. and KASIKORN Asset Management Company Limited, advisor to the President of Muang Thai Life Assurance Plc., and independent director of Big C Supercenter Plc. He was also a member of the State Enterprises Policy Committee before rejoining SEC Thailand as a Secretary-General in 2015.

Mr. Sucharitakul earned an LLM in Commercial Law from the University of Bristol, and an LLB (with honors) from the University of Essex in the United Kingdom.