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Message from Koji Nagai, President of Nomura Foundation

Nomura Foundation is a public interest incorporated foundation established in April, 2010. Through its activities, Nomura Foundation will contribute to advancing the social sciences and the world economy, cultivating the arts and culture, fostering international talent, encouraging international understanding, and supporting the progress of human society.

Since the establishment of Tokyo Club Foundation for Global Studies in 1987, one of three foundations established by Nomura Group and merged to create Nomura Foundation, we have supported research on both global economic imbalances and development and regulation of capital markets. We have cooperated with think tanks in the United States , Europe and Asia for many years.

Since Asia has increased its presence in the 21st century global economy, we have decided to start supporting intellectual interactions among experts at think tanks, universities and government agencies in Asia. As part of this new activity, we now begin publication of *Nomura Journal of Asian Capital Markets.*

We believe that development of capital markets is very important for Asian countries to promote their economic development and prosperity. Capital markets will have a significant impact on Asia's economic and social systems in terms of efficiently allocating resources, providing long term funds for building infrastructure, financing capital for small and mid-size enterprises leading innovation, developing insurance and asset management industries and providing middle class people with the tools to build their personal assets.

Naturally, economic conditions and financial systems differ from one country to another in Asia. Therefore, while there are common challenges and policies for capital market development among Asian countries, we should also respect the inherent and unique aspects of each country. This is why intellectual interaction is so important.

In order to effectively utilize savings and promote mutual investment, it is ideal to pursue common rules and coordinate related systems wherever possible. We are grateful if intellectual interactions through this journal could foster fruitful discussion among experts on common rules and development of systems.

On the other hand, the United States and advanced countries in Europe now face various economic difficulties. Asian countries should aim to avoid these pitfalls.

We believe that it is worthwhile for policymakers and experts in Asian countries to learn from the experience and knowledge which Japan has accumulated over a long period, with both success and failures.

We hope that this journal will help experts in industry, government agencies and the academic community deepen their mutual understanding and overcome common challenges.

YUTA SEKI

Nomura Institute of Capital Markets Research

Development of Asia's Capital Markets and Lessons to be Learned from Japan

Asia as a Center of Global Growth

Asia's presence in the global economy has been rising in recent years. Asia has been an important part of the world economy throughout most periods of history, and it has only been the past 200 years or so that Europe and the United States have dominated the world economy. However, while European and US economic growth has slowed since the latter days of the 20th Century, China and other emerging Asian nations have enjoyed conspicuously high economic growth rates. While income levels in Asian countries remain far below those in the United States and Europe, Asia has clearly become a leading driver of global economic growth since the start of the 21st Century.

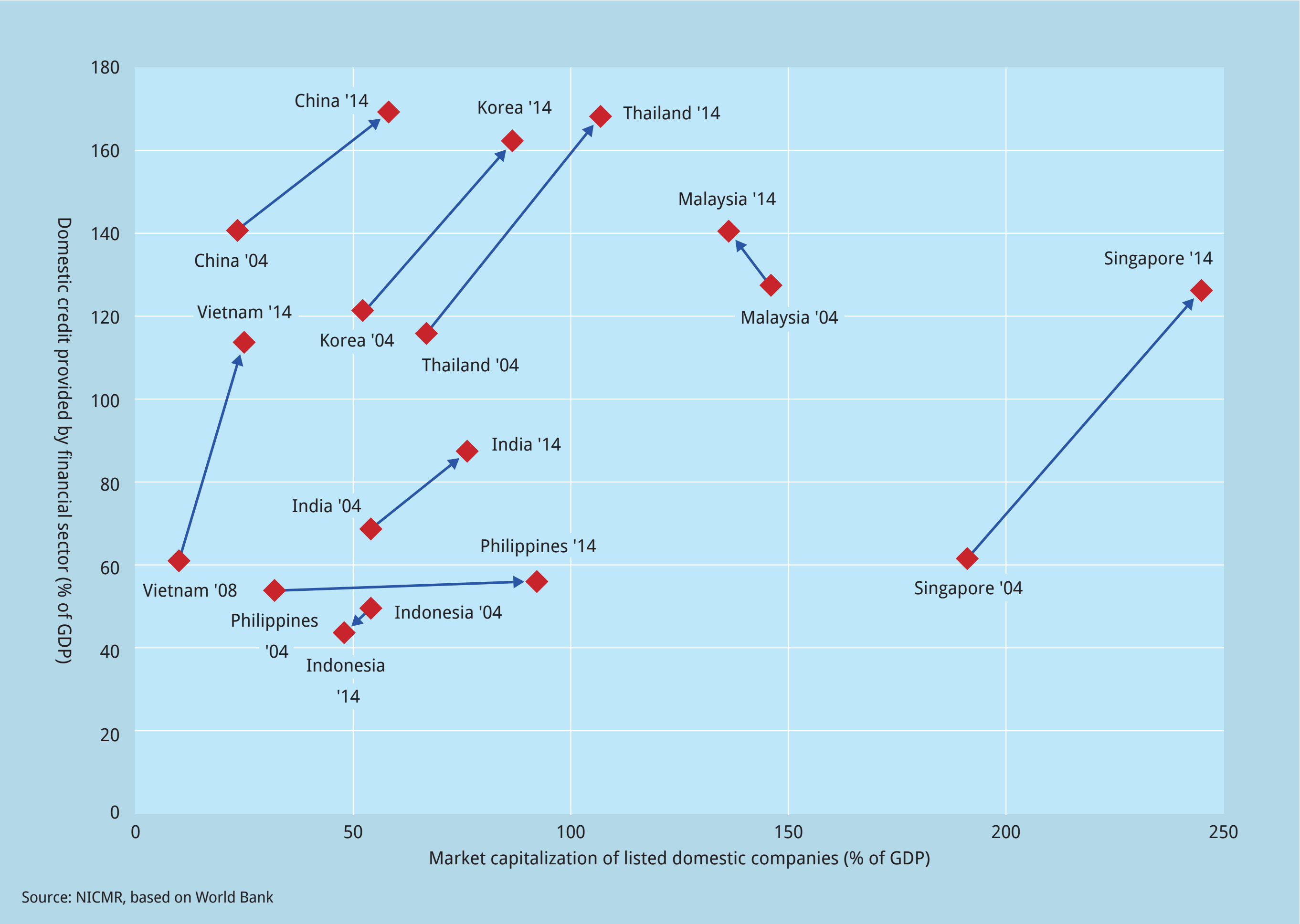
One of the distinguishing characteristics of Asia's economy is the region's large population, which amounts to more than half of the global population and is a driving force for regional economic growth. Asia's total population as of 2014 was about 3.7 billion, making Asia an economic zone more than six times larger than the three-country bloc formed by the North American Free Trade Agreement (NAFTA), with a total population of 450 million, or the European Union, with 27 countries and a total population of about 500 million. However, according to World Bank Financial Inclusion survey (2014), in such Asian countries as Indonesia, the Philippines, and Vietnam, less than 40% of their rather large populations possess accounts at a financial institution. From the perspective of financial inclusion, these countries lag far behind the developed countries.

Meanwhile, Asia accounted for about 30% of global GDP in 2015 (estimated figure). So while the region is enjoying high economic growth levels, its absolute economic scale is relatively small and is likely to remain so for the foreseeable future. In addition, income levels in Asia as measured by per-capita GDP are still low and wide disparities exist within the region. Such disparities can be readily seen if we map per-capita GDP (on a purchasing power parity basis) of major Asian nations against Japan's historical per-capita GDP growth trend. For example, a comparison of Malaysia and Vietnam reveals a rather large 20-year difference in these two countries' income growth pace from the perspective of Japan's economic history. Moreover, if we lineup the 2019 per-capita GDP forecasts for Asian countries, we notice that the relative position of each country is expected to remain the same, amounting to the perpetuation of an economic growth model that resembles the formation of a flock of flying geese. In other words, income levels in each country are expected rise steadily, increasing the likelihood that each country's economy will be greatly transfigured in the near future. A key point to observe within this growth trend will be whether or not Asian countries can achieve growth that enables them to escape from the middle-income country trap.

Asia's Financial System: Current State and Main Problems

It is often pointed out that banks (i.e., indirect financing) have traditionally been the core of Asia's financial system, and that the capital markets (direct financing) have not fully developed. However, this does not necessarily mean that Asia's financial intermediary function is highly dependent on indirect financing. To better understand the financial structure of each Asian nation, we examine the change from 2004 to 2014 in the ratio of total outstanding credit to GDP (an indicator of the scale of indirect financing) and the ratio of total market capitalization of listed companies to GDP (an indicator of the scale of direct financing) (Figure 1). This analysis shows that Singapore and Malaysia have high stock market capitalization/GDP ratios, amounting to financial structures that are very

Figure 1: Structure of Financial Systems in Asian Countries



Source: NICMR, based on World Bank

close to those of the United States and the United Kingdom. On the other hand, Thailand, Vietnam and China all have financial structures that still are fundamentally dependent on banks, even though their direct financing indicator is on a positive growth track. Vietnam, in particular, has seen a sharp increase in indirect financing in recent years. On the other hand, reliance on indirect financing in the Philippines and Indonesia has leveled off or even fallen in recent years. However, it could be that insufficient growth in bank lending has hindered economic growth in these countries.

International financial institutions, such as the Asian Development Bank (ADB) have often pointed out that the financial system of the Asian region as a whole faces many challenges and vulnerabilities that emanate directly from an overreliance on indirect financing. More to the point, because the region's financial markets have not been developed sufficiently, the growth in savings that has accompanied high economic growth is not being used to for investment opportunities in the region or to meet intra-regional demand for funds. As a result, Asian economic development has had to rely extensively on money flows from the U.S. and European markets. In addition, a lack of financial instruments that meet the asset management needs of a growing wealthy class and insufficient development of an asset management industry responsible for investing the pension-related assets of an aging population have contributed to an outflow of surplus money from the region.

Under such circumstances, changes in the flow of surplus funds from U.S. and European investors or changes in their investment stance have produced fluctuations in Asian countries' currency exchange rates and stock prices, creating conditions conducive to the generation and subsequent bursting of asset bubbles. In addition, jolts to a banking sector that lacks sufficient capital and risk management capabilities are likely to have a significant impact on the real economy. In short, the structural inadequacies of the Asian financial system that led to Asian currency crisis in the 1990s are still present today. Removing these inadequacies through the development and nurturing of capital markets that promote and facilitate the long-term re-investment of savings within the region will therefore become an increasingly important policy issue for the region's national governments and financial authorities.

The Importance of Capital Markets in Asia

In addition, we expect the four points noted below will further increase the importance of capital markets in Asia.

First, capital markets play a role in supporting economic growth and changes in industrial structure. Looking ahead, Asian countries' economic growth rates are expected to fall as the engine of economic growth shifts from labor-intensive manufacturing industries to consumer and service industries and finally to knowledge-intensive industries. If market mechanisms are not used to effectively shift resources to growth sectors and newly emerging industries, economic and industrial vitality will be lost. Equity markets can be thought of as the heart of an economic body that effectively pumps capital to all parts of that body, from venture capital companies to mature, listed companies, providing needed financing and refinancing. The importance of equity markets in Asia can only grow stronger. In that same context, as Asian economies shift from the government-led development stage to mature free-market economies, government-controlled industrial sectors will need to be opened up to private enterprises and government-owned companies will need to be privatized. It must be emphasized that equity markets have a major role to play in this shift to a private-sector-dominated economic system.

Second, Asian infrastructure development financing needs are huge. The Asian Development Bank Institute (ADBI) estimates that from 2010 to 2020 Asian countries will need to investment a total of $8.5 trillion in infrastructure. To meet the huge demand for infrastructure development, governments will need to issue bonds to finance public works while also seeking funds and know-how from international development financial institutions, the official development assistance (ODA) programs of other countries, and the private sector. Making use of private-sector funding will be crucial to accelerating economic growth without excessively expanding the fiscal deficits of national governments. Meanwhile, huge inflows of speculative funds from domestic and overseas investors seeking to profit from infrastructure-related urban development could lead to real estate bubbles and excessive amounts of credit. To avoid these risks, infrastructure projects should be financed by long-term investment funds. Moreover, the creation of mechanisms that promote the flow of funds into highly feasible infrastructure projects while weeding out projects with low feasibility will lead to a virtuous cycle of infrastructure development followed by economic growth. A price discovery function based on the formation of interest rates and stock prices in the financial markets will be an essential part of such mechanisms.

The third reason we expect the importance of capital markets in Asia to increase is the region's growing middle class. According to the OECD, the Asia-Pacific region's middle-income population will reach 1.74 billion in 2020, accounting for more than half of the global middle-income population. In addition, PricewaterhouseCoopers forecasts that the total assets of the mass-affluent population (households with total asset values between $100,000 and $1 million) in the Asia-Pacific region will double from 2012 to 2020 to reach $43 trillion. In addition to a sudden increase in consumption by Asia's middle class, their financial needs are likely to diversify as they accumulate savings and other personal financial assets. This growth in financial assets will lead to the emergence of an investor class that will not want to put all their money in bank accounts but will also desire to own insurance products and credit cards and to build asset portfolios that include investments in marketable securities and investment trusts, which in turn will promote further development of financial markets and the financial services industry. Many Asian countries are not yet at the stage where the diversity of financial services is a priority and government policy is rather prioritizing financial inclusion. However, in such countries, financial inclusion and more sophisticated financial services are two sides of the same coin, because the household sector's asset formation could be achieved through promoting financial products and services that will have more immediate and concrete benefits, such as funding the education of children and home purchases.

The fourth factor is future demographic changes. Many Asian countries, including China and South Korea, are expected to follow Japan on the path to a rapidly aging society. Population aging will most certainly lead to increased interest in pension system reform and more sophisticated asset management using securities markets.

Capital Market Crisis and Lessons to be Learned from Japan's Experience

The financial crisis that shook the world in 2008 presented the global capital markets with a major challenge. The failure of many highly leveraged financial institutions that had aggressively pursued the securitization of risk assets and trading business and the need for publicly funded bailouts of others greatly destabilized the world economy and society at large. In addition, the unconventional monetary and fiscal policies adopted by many nations to weather the storm and put an end to the crisis are one cause of the financial market turmoil that continues to this day. The ensuing discussions about financial industry regulations that took place in international bodies, such as the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB), and regulations subsequently enacted by the advanced countries of the world have imposed heavy capital and liquidity constraints on major financial institutions' trading and securitization operations. In some cases, financial institutions are no longer allowed to engage in proprietary trading, while investment funds have had constraints imposed on their trading and other operations.

Looking solely at these trends, one could get the impression that the role of capital markets has been reduced since the global financial crisis. However, a policy that focuses excessively on the crisis that occurred in the United States and Europe and as a result downplays the role of the capital market and therefore neglects to develop its functions would be a very dangerous one, especially for countries like today's Asian countries, which are just recently entered center stage in the world economy after a period of high growth.

The validity of this statement can perhaps best be appreciated by looking back at Japan's experience. During its high-growth period after World War II, when Japan was still playing catch-up to the United States and Europe and needed to mobilize a relatively small amount of savings for capital investment in manufacturing industries, banks were the core of Japan's financial intermediary system. Then, in the 1980s, when yen appreciation and other factors led to slower growth in Japan's export industries, accommodative monetary policy was adopted as a means of supporting the economy. The banks found themselves with a huge cash surplus that they began lending for the purchase of real estate or the stock of companies that owned real estate. The result was a spectacular real estate bubble that saw the value of the land in the 23 wards of Tokyo rise to a staggering level that was said to be equal to the value of all the land in the entire United States.

Stock prices peaked at the end of 1989, followed by land prices in 1991, starting a downward spiral that burst Japan's so-called bubble economy. However, the real tragedy for Japan was the long time it took to for the commercial banking sector to dispose of the approximate ¥100 trillion yen in nonperforming loans that had accumulated on the asset side of their balance sheets. As a result, funds were not available for the industries and companies able to contribute to the growth of the Japanese economy. Moreover, declining values of real estate used as collateral on bank loans extended under bilateral agreements generated losses for banks when they revalued their loan asset to the real market value of the underlying collateral. Both lenders and borrowers therefore had an incentive to postpone disposal of their devalued assets. As a result, real estate transactions declined and real estate prices became increasingly less transparent, making it difficult for both the regulatory authorities and investors to accurately grasp the actual market conditions, which in turn fueled a vicious cycle of credit contraction and falling asset prices.

The escape route from Japanese banks' bad-debt problem was finally opened up when Japan's bank regulators implemented financial stabilization measures, including injections of public funds to boost banks' capital, issued stricter regulations on the disclosure and evaluation of nonperforming loans, and demanded that the banks reduce NPLs and increase capital. The escape route was widened by the creation of the commercial mortgage backed securities (CMBS) market and the real estate investment trust (REIT) market following enactment of the Act on Securitization of Assets and revision of the Act on Investment Trusts and Investment Corporations. The new markets increased the transparency of loans and real estate transactions and revitalized the real estate market.

In conclusion, the strengthening of the capital market framework, as noted above, was a major driving force behind the emergence of Japan's financial system from its bad-debt crisis and the subsequent recovery of the wider economy. The Japan experience therefore serves as a valuable lesson that financial intermediary systems should not become over-reliant on the commercial banking sector and that asset liquidity and the transparency of asset price formation should be maintained by enhancing the functions of the capital markets.

Japan's Effort: Formation of the Investor Base and the Role of Securities Firms

It should also be noted that Japan's capital market–related policies also emphasized the use of the securities market as a savings vehicle and the formation of a diverse investor base.

As far back as the latter half of the 1960s, when IPOs were increasing, many companies introduced employee stock ownership plans that promoted employees' asset formation while raising their interest in their company's business results by enabling them to accumulate shares of their company via regular payroll reductions. In 1980, the introduction of medium-term government bond funds contributed to diversification of the government bond market's investor base just as the Japanese government was beginning to issue a large volume of government bonds. Medium-term government bond funds became popular with individual investors because they were safe, low-risk instruments that enabled small-lot investments in fixed income securities and most often provided higher yields than bank deposits.

After the bursting of Japan's economic bubble, from 1996 the Japanese government implemented a series of reforms of the nation's securities market that came to be known as Japan's financial-sector big bang. Following these reforms, many overseas asset management companies and investment funds entered the Japan market, leading to even greater diversification of market participants. Then, in 2001 the government led by Prime Minister Junichiro Koizumi, under the slogan of "From Deposits to Investments," adopted various measures to promote investment in Japan, including temporarily lowering the income tax rate on dividends and capital gains from 20% to 10% from 2003 to 2013.

Since the end of 2012, the Abe government has implemented a series of monetary and fiscal measures that have been labeled "Abenomics". In addition, Japan introduced Nippon Individual Savings Accounts (NISA), a system of tax-free accounts used for small-lot investments by individuals, in 2014 and approved reforms to the defined contribution pension system in 2016. These ongoing reforms indicate that making greater use of individuals' financial assets and promoting the supply of risk money to corporations and industries remains a high priority in Japan's economic policy. While stock prices and economic growth in Japan might lead one to doubt the efficacy of these government policies, they have undoubtedly played a major role in securing Japan's position as Asia's largest stock market and promoting the accumulation of individual financial assets. We think Japan's efforts provide a useful reference point for the future development of capital markets in Asian countries.

Lastly, I would like to emphasize that, from the perspectives noted below, securities companies and investment banks have a major role to play in advancing the development of Asia's capital markets. The first is to support investment decision-making and facilitate investment action by distributing information to institutional and individual investors about economic trends and changes in corporate value through research analysts and financial advisors. This function will have the effect of correcting distortions and inefficiencies in the economic resource allocation. It also means that securities companies and investment banks should provide financial and investment education to individual investors through consulting services provided by competent advisors. Second, while using market mechanisms to aid in capital formation, securities and investment banks can make proposals that add to the value of existing businesses and assets, including the restructuring of mature companies and industrial sectors and the securitization of illiquid real estate assets. When the Japanese government has sought to privatize and list companies that have long enjoyed monopolies protected by government regulations—such as NTT and Japan Post—Japan's securities companies and investment banks have played crucial roles in that process. They therefore have accumulated the experience that could prove useful when Asian countries decide to implement similar policies.

The investment banking business model of advanced countries includes many aspects that should be carefully reconsidered and improved, such as the excessive leveraging and risk-taking that eventually gave rise to huge social costs. Nonetheless, it is safe to say that the functions that capital markets and securities companies are meant to perform will be important to economies, like those in Asian countries, that are shifting from a steady, high growth phase to a more moderate, stable growth trajectory.

YUTA SEKI

Managing Director, Nomura Institute of Capital Markets Research

Yuta Seki is Managing Director and Head of Research at Nomura Institute of Capital Markets Research (NICMR). He has held his current position since April 2011. He is the author of various research articles and books, and serves as advisor or guest speaker for government committees and industry group advisory panels. He joined Nomura Research Institute (NRI) in 1990. In April 2004 with the establishment of NICMR, he was appointed Chief Representative of NICMR's New York office. During seven years stationed in the U.S., he conducted research on the U.S. financial industry and capital markets, including issues related to the global financial crisis and policy responses.

He graduated from the Law Faculty of Keio University in 1990 and earned an MBA from Marshall School of Business at the University of Southern California in 1999.

KAHLIL ROWTER

PT Danareksa

Indonesian Capital Market Developments and Challenges

Summary

Since its revival in the early 90s Indonesia's capital market has seen significant development. The market saw significant volatility during the Asian Financial Crisis in the late 90s. A repeat was also seen during the Global Financial Crisis in 2007–8. Since then it has gone up and down on the back of the commodity boom and bust.

Also, structural issues have held back its potential to support economic growth. In particular, its role in providing investments in infrastructure is limited.

The government should raise the capital market's role in economic growth. But this must go together with other policies outside the financial sector itself. In particular is labor market reform. This will raise public participation in the capital market. Also it will mobilise funds that are not yet channeled through the modern financial sector.

Background

Indonesia is one of the most important countries in South East Asia. In recent years the Indonesian economy has weathered global slowdown, but it is not immune to global volatility.

The Indonesian capital market developed quite late. Only in the early 90s did the government reform the capital market. This was a response to the government's own need to revamp state-owned enterprises.

But then the Asian Financial Crisis (AFC) hit. And the capital market along with banking sector crashed. To recapitalize the banking sector the government issued bonds to the banks. Then in the early 2000s the government developed the government bond market to refinance them. Today this is one of the largest segments of the capital market. But it is also one major source of risk.

Meanwhile, in the equity market, privatization continued apace, especially after the AFC and before the Global Financial Crisis (GFC). Besides the government, private firms—in particular, those in the natural resource sector— also showed interest to raise capital. After the GFC a lot of funds flowed into the market from loose monetary policy in the US and Europe.

But then the global market got a shock with the announcement of US Fed plan to start raising rates. This also resulted in pressure against the Indonesian market. Next, came the news of China's economic slowdown which triggered a commodity bust. The Indonesian equity market with its heavy reliance on commodity stocks was hit hard.

Similar volatility also took place in the government bond market. One overhanging risk in this market is the large share of foreign ownership, up to about 40% as of late May 2016. This is the window through which global volatility impacts prices and trading volume. Bond price movements impact the balance sheets of banks, pension funds and insurance companies. It also affects the cost and availability of government funding.

Another issue is the limited contribution of the capital market to the economy. This comes from the small size of the financial sector and that the sector is still dominated by the banking sector which has its own issues.

Structure of the Financial Sector

In 2012 the financial sector in Indonesia was only around 100% of GDP (see table 1). This is a much smaller share compared to other ASEAN countries. Domestic credit is about 40% of GDP, corporate bonds about 13% and the stock market around 50%. The role of bank loans to GDP has fallen further (see below).

The financial market's size has remained the same. But its structure has changed a lot. The role of the equity market has risen at the cost of banking and the corporate bond market.

The dominant banking sector is a legacy of the state-directed financial sector up to the 1980s. It is also the result of the late development of the non-banking financial sector.

There is also a large foreign investor holding in equity and bonds. In the equity market, foreign investors own around 43% of capitalization. In the government bond market, offshore investors hold around 40% of outstanding amounts.

The dominant banking sector limits the funding horizon for the entire economy. Around 78% of total deposits are in the 1–3 months horizon. This restricts banks' ability to finance long-term borrowing. Meanwhile, the small non-banking sector (NBFI) also limits long-term borrowing.*1

Stage of Financial Sector Development in Indonesia

As stated earlier, the Indonesian financial sector is small in comparison with its neighbors. The interesting question is why is this the case. One potential reason is the country's history with political upheavals altering key financial institutions. Second is the geographic spread. And third is underlying economic structure. We will confine the analysis here to the third rationale.

The Indonesian monetary base is smaller than its neighbors. In 2015, M2 to GDP for Indonesia was only 39% compared to an average of 186% for East Asian economies.*2

Another indicator is the relatively large size of the informal sector. We use the percentage of unpaid working population as a proxy. For Indonesia in 2014 it stood at 63%, compared to 42% in the Philippines and 25% in Malaysia (2012 data). It also reflects the large agricultural sector in Indonesia.*3

The labor force that works in agriculture usually has little education beyond elementary level. The labor arrangement is usually without contract and paid in kind. Outside of the agricultural sector there are also a lot of non-contract labor arrangements. These include hawkers, household help, drivers and others. Most of these workers get cash payments and keep their savings in cash. Hence, they do not take part in the modern financial sector.

We have seen that the early stage of the financial sector in Indonesia accounts for its small size. The next question is what are the consequences?

We will argue that such a small financial sector has two key characteristics. First, it is vulnerable to global shocks. And second, it may not provide enough resources to finance growth in the country.

The small financial sector is also not inclusive. That means a sizable part of the population do not take part and enjoy the benefit from this sector. Also resource mobilization is minimal. A related issue is the limited number of participants. This means there is not enough variation in behavioral pattern. As a result the probability of herd behavior is more prevalent. For example, when the stock market tanks most local investors are in panic-selling mode. There are not enough opportunistic players on the other side of the fence. This leaves the stock index being volatile.

Table 1: Structure of the Financial Sector in ASEAN members

% of GDP

	Banks (domestic credit)	Bond market issue balance	Stock market capitalization	Total
Indonesia	39.4	12.7	48.8	100.9
Malaysia	135.3	107.3	153.1	395.7
Philippines	52.4	39.6	91.7	183.7
Singapore	99	81.2	269.1	449.3
Thailand	131.5	76.1	106.5	314.1

Source: Asian Bonds Online (ADB) , World Economic Outlook Database (IMF)

Developments in the Equity Market

Since the early 90s before the AFC Indonesia's equity market saw tremendous growth. Its main drive was privatization of State-Owned Enterprises (SOEs). Today the market value of SOEs is a substantial 25% of the Indonesia Stock Market Capitalization. They are among the most liquid stocks traded and are part of the LQ45 (the 45 most traded stocks in the exchange).

The largest SOE by market capitalization is PT Telekomunikasi Indonesia (Telkom). It has a market capitalization of about 7.2% of the market. Its IPO was in 1995 and it is also the second largest company by capitalization in the stock exchange. It has a virtual monopoly on terrestrial telecommunications. Its cellular subsidiary is the market leader with 55% subscriber share.

Another bellwether stock is Bank Mandiri with about 4.5% share of market capitalization. It is the largest bank in Indonesia. And two other state-owned banks are also among the largest in the country. Together these three banks occupy close to 11% of market capitalization.

The main issue with the Indonesian stock market is its limited size and liquidity. The market was only 47% of GDP in 2015, which is a much smaller share than in other ASEAN countries. Liquidity is also quite low, with 0.14% (of market capitalization) daily trading in 2015.[*4]

A further issue is concentration. Out of the 532 listed companies, just 11 companies make up 50% of market capitalization. The top 45 liquid traded stocks make up about 69% of market capitalization.

There is also unequal liquidity by ownership. Foreign investors usually trade in blue chip stocks and in large ticket sizes. Hence, these blue chip stocks are the most traded and drive the index itself. Domestic investors, especially the retail segment, often follow what foreign investors do. The rationale is simple: foreign investors trade in large volumes and can move the price. But then foreign investors usually have a longer horizon. That opens a short lived window for domestic investors to arbitrage.

A market dominated by global investors is prone to volatility, as happened for example, in the taper-tantrum and Chinese devaluation episodes. From mid-2013 to early 2014 Indonesia's market tanked after the US Fed signaled an interest hike. But it rose along with the Shanghai stock market to historically high levels in April 2015. Then, as the Chinese market melted for domestic reasons the Indonesian market tanked. It has since recovered with the delayed Fed rate hike and stabilization in China.

Another issue in the Indonesian equity market is the low amount of free-floating shares. For example, Bank Negara Indonesia has only 37% free float. The rest is still government owned. This is typical for state owned enterprises. Another bellwether stock, Unilever Indonesia, also has 31% free float. Even Astra International, one of the largest firms in the country only has close to 37% free float. This means the founders are in control of the firm's direction. This does not bode well for corporate governance. This is also the reason several big global funds shun the Indonesian market.

Developments in the Bond Market

In contrast to the equity market, the Indonesian bond market remained nascent well into the AFC. A notable feature of the bond market is that there were no government bonds issued until after the AFC. The market now has a small corporate bond segment and a large government bond segment. The shift to the bond market is part of the government's move towards market-based deficit financing. This is a strategic move toward global best practice and away from multilateral arrangements. Also there was the need to have a liquid bond market to finance recapitalization bonds.

The corporate bond market remains small due to banking sector dominance. This is despite the advantages of issuing bonds—such as not requiring specific collateral and greater flexibility in use of funds. Bank loans have their benefits as well. One is the tailoring of fund draw down to project expenditure.

Market participants have long complained about the challenges of issuing bonds. These are: First, the tedious process to get approval from the capital market authority;[*5] second, the disclosure requirements which are at par with and IPO;[*6] and third, the 6-month validity of financial records. This creates a 2–3 month issuance window for end-of-year audited statements. These issues limit the development of the corporate bond market. (With corporate bonds outstanding comprising only about 2.2% of GDP, as of March 2015).

Since recapitalization bonds started trading in the early 2000s, market liquidity has picked up. And with the shift to bonds to finance the budget deficit, the supply has also been steady. The government made policy changes and institutional setup to build up its issuance capacity. The main policy initiative was a 2002 law governing government bond issuance. This legislation guarantees payment of principal and interest. And the institutional initiative was to setup first a directorate of bond management.[*7] That unit has evolved into a new directorate general. This unit is one of the most progressive inside the Ministry of Finance. It has a close relationship with market participants hence having support from the market.

The volume of government securities at the end of 2015 was about USD170 billion, about 26% in foreign currency and the rest in IDR. The legacy bilateral and multilateral debt remains at USD54.2 billion for the same period. With a few exceptions the government is not borrowing more from non-market sources.

The share of foreign loans in GDP is low, at around 26.8% at the end of 2015. Thus, despite Indonesia's non-investment grade rating, foreign investors favor the government bonds. This has resulted in foreign ownership rising from 18.6% at the end of 2009 to 39.1% at the end of June 2016. And, as in the equity market, foreign holders in the government bond market are the market movers.

The significant presence of foreign investors in the government bond market has created vulnerabilities. These are contagion and market risks. Still, in recent years the foreign ownership has taken on a longer term investment horizon. About 7.25% foreign investors are foreign central banks and governments. They are presumed to have a longer investment horizon and to be less prone to panic. At the same time the presence of hedge-funds has declined in recent years.

Even so, market risk remains. Following talk of Fed rate normalization in mid 2013, the 10-year yield rose to 2.5%. Between then and mid 2016 the yield fluctuated between 7% and 9%. This yield movement reflects global volatility stemming from two main sources: the global economic slowdown and the US Fed rate hike (see figure 1).

Other Salient Features of the Indonesian Capital Market

Besides its limited size the capital market also lacks a variety of instruments. For example, in the equity market almost all traded instruments are common stocks. There are almost no other types of instruments worth mentioning. In particular, the market lacks hedging instruments.

The main reason for the dearth of instruments is the unsophisticated buy-side. The retail investor base is small, estimated at only 440,000 in January 2016.[*8] Many observers believe that only a handful of that number are actively trading in the market. There are also about 270,000 individual mutual fund accounts. Some of this is investment linked insurance products.

On the institutional side, there are a small, sophisticated fund management sector and a larger but unsophisticated group of insurance and pension fund firms. Most pension funds were established by firms to cater to their employees. At the end of 2015, total assets of the pension fund industry stood at IDR207 trillion or about 1.8% of GDP. Pension funds are not allowed to invest in derivatives and only recently were they allowed to invest outside the country. Until recently most pension funds followed the defined benefit model, which constrained their cash flow and curtailed risk appetite. That is why they placed a preponderance of their investible funds in term-deposits.[*9]

Implications of Capital Market Size and Structure on Economic Development

Despite the dominance of the banking sector, it plays a less important role in the economy than might be expected. A recent World Bank report stated that Indonesian banks' credit stood only at around 35% to GDP.[*10] This is small compared to other ASEAN countries like Malaysia and Thailand. Meanwhile, equity and corporate bond markets are not providing enough funds to finance growth.

In its planning documents the government of Indonesia said the economy needs over IDR26 thousand trillion in investment fund over the next 5 years to grow at a rate of 6.9%.[*11]

The financing for this will come from domestic savings and borrowing. The private sector will tap banks and capital markets for its investment funding. Banks will contribute 8.3% of GDP by 2019. The equity market's role is expected to rise from 0.9% of GDP to 1.4% by 2019. The bond market's role will grow from 1% of GDP to 1.4% also by 2019. The role of internal corporate financing will remain around 15%. Hence, even in the optimistic scenario the capital market is not seen to play a significant role. And most funding is still expected to come from the banking sector and from firms' internal resources. This will be an interesting topic for further studies.

Because banking sector funding remains short-term, its ability to fund longer term projects is also limited. This is due to banks' effort to reduce market risk. When interest rates go up banks' cost of funds goes up and loan rates go up in a staggered manner. But when interest rates go down banks' net income immediately goes up. But its liquidity position might come under pressure to service rising loan demand. Hence, banks usually limit the average loan term to 3–5 years.

Tentative Policy Recommendations

For its longer term growth Indonesia needs to invest in infrastructure. Infrastructure investment is best funded by the capital market owing to its long-term nature. For the capital market to develop, introduction of new instruments must become a priority. And of special importance are hedging instruments to address interest and exchange rate risks. Government bond benchmark issues are available to provide pricing guidance for these.

To address the issue of insufficient monetization, the labor market must undergo structural reform. More formal labor arrangements will create huge demand for financial services. At the same time this will raise the supply of funds to the financial system.

Another important policy is to move from short-term deposits into longer-term instruments. One way is by raising financial literacy.

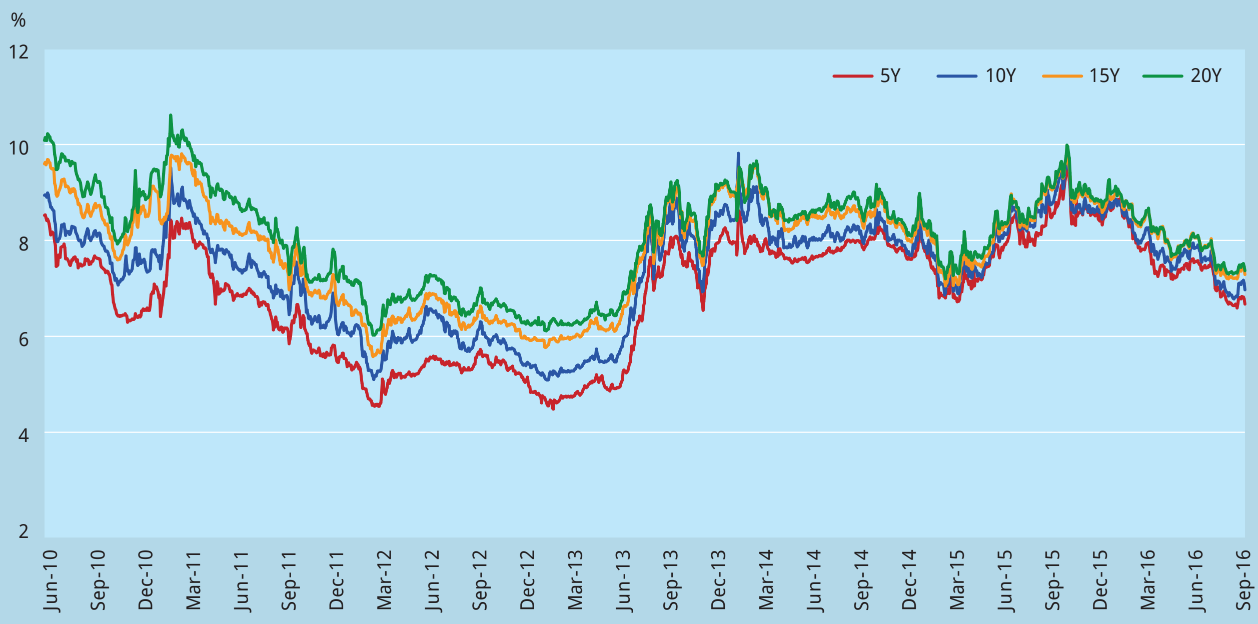
To increase capital market transparency the share of free float needs to rise, including at state-owned companies. One instrument the government can use is tax incentives. At the moment the threshold for this discount is 40%.[*12] In the future the government should consider tiered discounts. The government can also bring more state-owned enterprises into the market.

Conclusions

Indonesia's financial sector, especially its capital market is at an early stage of development. There are two consequences. First, it has a limited ability to fund economic growth and second, it is prone to global market volatility. Market volatility limits the participation of the public to sophisticated individuals and corporations.

Developing the capital market requires the government to look beyond the financial sector. The main reason for its small size is the large role of the informal sector in the economy. Hence developing the capital market entails reforming the labor market as well. At least those services that the government gets should come from the formal sector.

Figure 1: Government Bond Yield Movements



Note: 6.64 (5Y), 6.94 (10Y), 7.26 (15Y), 7.34 (20Y) - As of September 2, 2016

Source: Ministry of Finance Republic of Indonesia

Notes

*1 Data from World Bank Financial Development dataset show that in 2014 NBFI only occupied 3.3% of GDP in Indonesia. In comparison, the average for East Asian developing economies stood at 25% and for Thailand the figure stood at 46% for the same year.

*2 World Bank Financial Development dataset.

*3 Agriculture accounts for about 14% of GDP in Indonesia, 8% in Malaysia and an average of 10% in East Asia.

*4 Market capitalization was IDR4.872 trillion and annual trading stood at IDR1406 trillion with 244 trading days.

*5 All bonds issued in Indonesia with public distribution are listed in the stock exchange.

*6 Including periodic reporting to the stock exchange and the investor gatherings.

*7 A directorate is two steps below ministerial level in the Indonesian bureaucratic system.

*8 Jakarta Post, 26 January 2016.

*9 In 2016 pension fund assets were allocated 30% in term-deposits, 22% in corporate bonds, 18% in government bonds, and 14% in equity. The rest consists of investments in property and others. Data source: Otoritas Jasa Keuanganan, Statistik Dana Pensiun, June 2016.

*10 Indonesia: Systematic Country Diagnostic, September 2015.

*11 Rencana Pembangunan Jangka Menengah Nasional, 2015–2019, Kementerian Perencanaan Pembangunan Nasional, 2014.

*12 Additional requirements are 5% maximum ownership per party and a minimum of 300 parties.

KAHLIL ROWTER

Chief Economist, PT Danareksa.

Kahlil Rowter has been the Chief Economist of PT Danareksa, the leading securities firm in Indonesia since 2015. Prior to this he served as Chief Economist in various organizations including Bakrie Global Ventura, Mandiri Sekuritas and CIMB Securities. He headed Pefindo, the largest debt rating agency in the country from 2007–2010. During that period he also served as a member of the Board of Directors at Association of Credit Rating Agencies in Asia. He was a member of the Listing Committee at the Indonesian Stock Exchange from 2007 to 2011. In 2010 Kahlil was appointed as a member of the Independent Evaluation Team for Krakatau Steel Initial Public Offering by the Minister of State Owned Enterprises. From 2010 to 2014 he served as an adviser on fiscal policy at the Ministry of Finance.

Kahlil also lecturers at Universitas Indonesia's Graduate School of Management. He is a frequent contributor to foreign and domestic newspapers and speaks at international seminars.

CAPITAL MARKETS MALAYSIA

The Malaysian Capital Market: Connected, Vibrant, Innovative

Malaysia's capital market is an attractive venue for investors looking to tap into the potential of emerging markets. It caters to both sophisticated and retail investors by facilitating investment activity through a range of avenues, underpinned by a strong and facilitative regulatory framework under the purview of the Securities Commission Malaysia (SC), Malaysia's capital market regulator.

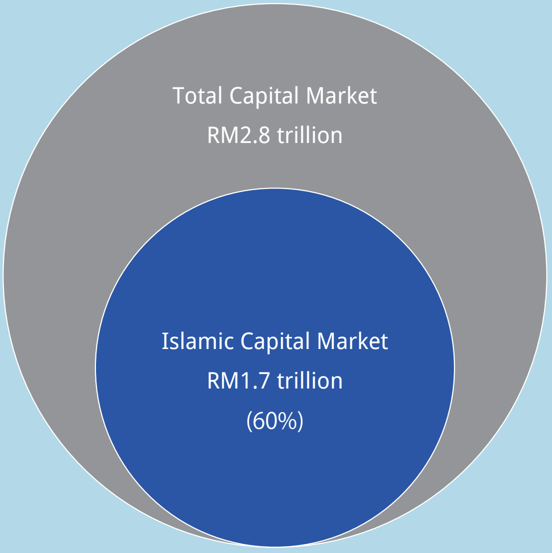
Malaysia is home to ASEAN's largest bond market and the world's biggest *sukuk* centre, which demonstrates that the market has the depth to provide long term financing across different maturities and infrastructure needs. The stability of the Malaysian bond market is proven as established institutions such as Bank of Tokyo-Mitsubishi UFJ have floated their bonds in Malaysia. In 2015, Malaysia was the leader in ASEAN for local and foreign currency bond issuances valued at US$299 billion (2015).

The development of Malaysia's bond market was accelerated on the back of the 1997 Asian financial crisis, which saw the banking sector being more prudent in its lending to the private sector. The SC took on the role of single regulator for the corporate bond market when it moved towards a full disclosure-based regulatory approach. This led to the dynamism of the Malaysian bond market with increasing market size, active issuance and trading of government and corporate issues. Bursa Malaysia's Main Market is populated mainly by the largest and most established companies in Malaysia and covers a wide spectrum of economic sectors, while the ACE Market is aimed at growth companies with a strong product or service portfolio. Investors looking to buy and sell stocks can do so through the stock market by picking stocks from either one of these markets.

To ensure that the Malaysian capital market remains competitive, the SC continues to work with the industry to transform the market, and ensures alignment with market trends such as financial innovation, digital disruption, sustainability and inclusiveness.

In line with the introduction of newer technologies, the SC as the capital market regulator, introduced several ini-

Figure 1: Size of Malaysian Capital Markets



Source: Securities Commission Malaysia

Malaysia's Islamic capital market continues to be the global leader and record strong growth tiatives to further increase inclusiveness. The Alliance of FinTech Community or better known as the aFINity@SC was formed in 2015 and is aimed at catalysing greater interest towards the development of financial technology (fintech). Its establishment seeks to raise awareness, leverage on a network of fintech stakeholders to spur growth and innovation in this industry, and assist firms in navigating the regulatory environment by providing policy and regulatory clarity.

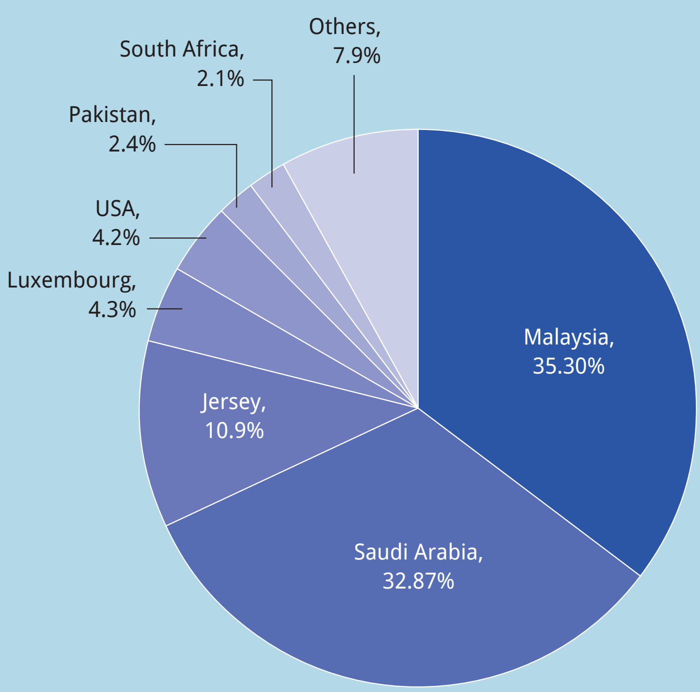
Investors wishing to diversify their portfolios can opt to add another asset class through equity crowdfunding (ECF) platforms. Malaysia became the first country in Asia-Pacific to introduce a regulatory framework to facilitate ECF, with six registered platforms ready in the first half of 2016. The regulatory framework introduced efforts to protect all market participants, including investors, by ensuring that the operators are fit and proper and have the ability to operate in an orderly, fair and transparent market. ECF is a new form of fundraising which allows start-ups or other smaller enterprises to obtain capital through small equity investments from a relatively large number of investors. Online portals are used to publicise and facilitate such offers. Investors who would like to ride on the wave for 'the next big thing' in the start-up industry of Malaysia can now do so through the registered ECF platforms, namely, Alix Global, Ata Plus, Crowdo, CrowdPlus.asia, Eureeca and pitchIN.

Early in 2016, the SC introduced the framework for peer-to-peer (P2P) financing, setting out requirements for the registration of a P2P platform as stipulated in the amended Guidelines on Recognized Markets. This will enable small and medium-sized companies to access market-based financing to fund projects or businesses through the application of technology solutions and provide investors with alternative investment opportunities.

In addition, on 15 June 2015, SC liberalised the wholesale product approval process as part of a multi-year regulatory reform process to enhance market competitiveness and efficiencies. This new framework forms part of SC's commitment towards an appropriate balance in regulation, recognising that sophisticated investors generally have greater ability to protect their own interests and absorb investment risks, as opposed to retail investors. The SC also introduced other regulatory requirements to provide the appropriate level of protection for investors, including ensuring better sales practices, guided by the principles of 'Treating Investors Fairly'. This requires distributors to ensure that the product is suitable for the targeted investors, taking into consideration their risk profile, and provide clear and adequate information to allow them to make an informed investment decision.

Recently, the SC released a consultation paper seeking public feedback on proposed enhancements to the Guidelines on Real Estate Investment Trusts (REITs Guidelines). The proposals are part of the SC's efforts to facilitate growth of the maturing REITs market in a manner that promotes stronger governance practices and enhances market confidence.

Figure 2: Global Islamic AUM by Domicile



Note: As of end March 2016
Source: Thomson Reuters, Lipper, ISRA estimates

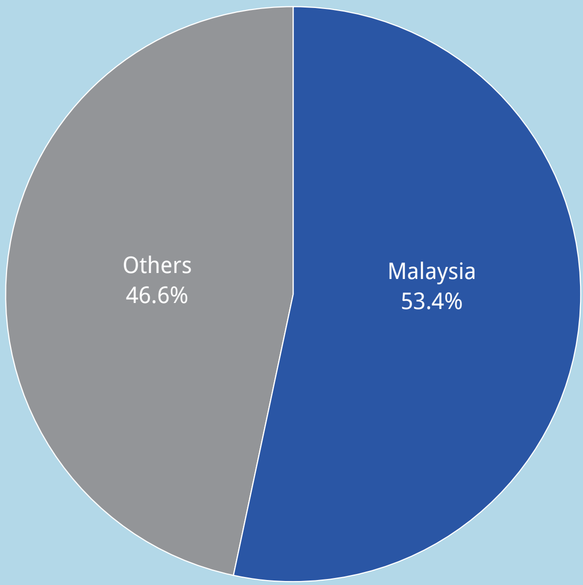
SC has developed the only licensed Islamic fund management industry in the world, with 20 full-fledged Islamic Fund Management Companies and 27 fund management companies with windows and also having the largest assets under management (AUM) in the world, with 35% of global AUM

Leading Global Islamic Capital Market

The establishment of the Malaysian Islamic Capital Market (ICM) in the early 1990s provided the foundation for the country to be a leader in the global Islamic Capital Market. The Islamic Capital Market today is an integral part of the overall capital market development agenda.

Malaysia's ICM has more than tripled between 2005 and 2015, reflecting a compounded annual growth rate of 11.7%. The market size reached RM1.7 trillion by end-2015, representing 60% of the entire Malaysian capital market. Malaysia continues to be the global leader in the *sukuk* market, commanding 54.3% of the global *sukuk* outstanding as at end-2015. In the Islamic fund management industry, as at end-2015, Malaysia is home to the largest number of Islamic funds globally with 25% global market share; it also ranks as the second largest country for Islamic assets under management (AUM) globally, accounting for nearly a third of global Islamic funds under management of US$58 billion. Based on these solid foundations, Malaysia will continue to pursue collaborative efforts to further widen ICM's international base and seize new growth opportunities. This includes tapping new growth segments, notably in Islamic fund and wealth management and waqf, as well as enhancing existing capacity and capability.

Figure 3: % of Sukuk outstanding



Note: As of 30 June 2016
Source: ISRA & Zawya

Malaysia continues to be the global leader in the sukuk market, with 53% of USD321 bil total sukuk outstanding globally

Gateway to ASEAN

The Association of Southeast Asian Nations (ASEAN) was established in 1967 with the signing of the ASEAN Declaration (Bangkok Declaration) by the founding members of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand (also known as the ASEAN-5 countries). Brunei Darussalam, Vietnam, Laos, Myanmar and Cambodia later joined ASEAN, making up what is today known as the ten members of ASEAN.

ASEAN, a major global hub of manufacturing and trade has an immense growth potential which led to the establishment of the ASEAN Economic Community (AEC) in 2015. The AEC offers opportunities in the form of a huge market of US$2.6 trillion with a total population of 622 million people – larger than the European Union or North America – and has the third-largest labour force in the world, behind China and India. Collectively, the AEC is the third largest economy in Asia and the seventh largest in the world (2014).

ASEAN's GDP growth has been rapid and relatively stable since 2000 with a real GDP growth of 4.6% in 2015 and is projected to reach an average of 5.2% from 2016-2020. Malaysia, being one of the five founding members of ASEAN, has the largest number of companies listed on its stock exchange compared to its regional counterparts, with 903 listed companies (2015) cutting across major sectors including finance, media & publishing, telecommunications, plantations, real estate, conglomerate, healthcare, shipping, energy & utilities, and food & beverages.

As Chair of the ASEAN Capital Markets Forum (ACMF), the SC is spearheading several initiatives to increase the connectivity of the region's capital markets and facilitate the efficient aggregation and mobilisation of capital for regional growth.

As a grouping of capital market regulators in the region, the ACMF plays an important role in creating an enabling environment for facilitating regional integration, as well as the development of the requisite market infrastructure and regionally focussed products. Through these efforts, ASEAN issuers and intermediaries are able to operate in a more seamless cross-border regulatory environment, including lower friction costs and reduced time to market.

The ACMF has established a Streamlined Review Framework for the ASEAN Common Prospectus to shorten the time-to-market for cross-border offerings of equity and plain debt securities, thereby enhancing ASEAN's attractiveness as a fundraising centre. In addition, the ASEAN Collective Investment Schemes (CIS) Framework was rolled out in 2015 to increase the cross-border product range and enhance ASEAN as an asset class. To date, 13 funds have been approved by their respective home regulators as Qualifying Collective Investment Schemes under the ASEAN CIS Framework.

Clearly, with the amount of potential talent the country has, along with the possibility to tap into the ASEAN market using Malaysia as the gateway, for investors looking to ride on the positive developments in the region, there is no better time than now.

Forging Ahead

As we embrace the advent of financial innovation, Malaysia continues to identify opportunities to grow its capital market through innovative market-based financing solutions. More recently, the role of *sukuk* in public good and social impact initiatives is gaining greater attention. In order to further promote inclusiveness in the capital market, we have widened the product range to include sustainable and responsible investment (SRI) instruments. The market has embraced this development positively, which resulted in the inaugural issuance of SRI *sukuk* in 2015 under a specially dedicated framework. This has opened doors of opportunities for philanthropists and CSR investors to participate in the *sukuk* market, thus further broadening the investor base for the industry. The underlying principles of the Islamic capital market encompass fairness, equality and ethics that lead to social well-being. SRI itself is an investment strategy which seeks to consider both financial return and social good by applying both positive and negative screens to include or exclude companies in a portfolio based on social, moral and ethical criteria.

Given that ICM echoes the principles of SRI, expanding the Malaysian capital market towards this emerging segment is a natural, forward progression. In creating a facilitative ecosystem for SRI, a holistic approach has been adopted to broaden the investor portfolio, build a strong SRI issuer base, widen the range of SRI instruments, as well as instil an internal culture, governance practices and information architecture.

CAPITAL MARKETS MALAYSIA

Capital Markets Malaysia (CMM) was established by the Securities Commission Malaysia to position the Malaysian capital market as an international marketplace for investment and fund raising opportunities and transactions. It will profile the competitiveness and attractiveness of the various segments of the capital market via a comprehensive and integrated approach and a network of strategic partnerships in order to increase international participation and enhance opportunities for Malaysian capital market intermediaries.

VICTOR A. ABOLA

University of Asia & the Pacific

Capital Market Development in the Philippines

Introduction

In the early 1960s, the Philippines as a developing country and its capital markets appeared to be of great promise. Its per capita income was higher than most Asian countries and its educational and political levels were at par with the United States (USAID, 1999). But that promise has remained unfulfilled.

Some underlying trends in the financial markets of the Philippines since 1980 emerge from Table 1. First, the importance of the financial sector in the economy has grown significantly. The ratio of the financial sector assets to GDP was 91.7% in 1980, fell after the Marcos era through the Asian Financial Crisis (AFC) and has reached 115.2% by 2015.

Second, the banking sector has gained more importance. Universal and commercial banks (UKBs) particularly increased their share of financial system assets from 55.9% in 1980 to 72.8% in 2015. Since the figures exclude trust assets (another 16.7% of bank assets), it means UKBs increased their market power, hindering the development of new financial products and institutions. (Antonio and Abola, 2005).

Thus, non-bank financial institutions (NBFIs) became relatively less important. This was unfortunate since NBFIs are big buyers and sellers in the capital market and developers of new financial products for it.

Among NBFIs, pension funds are the

Table 1: Amount and Composition of Financial Assets by Type of Institution, 1980-2015

	1980		1990		2000		2010		2015	
	Amount Share		Amount Share		Amount Share		Amount Share		Amount Share	
	Billion Pesos	%	Billion Pesos	%	Billion Pesos	%	Billion Pesos	%	Billion Pesos	%
Banking system	**188.8**	**76.2**	**609.5**	**76.1**	**3,326.8**	**80.4**	**7,230.2**	**79.9**	**12,406.3**	**80.9**
Universal and commercial banks	138.4	55.9	539.7	67.4	3,013.6	72.8	6,423.7	71.0	11,159.2	72.8
Thrift banks	10.6	4.3	37.6	4.7	245.8	5.9	626.4	6.9	1,034.1	6.7
Specialized gov't banks	34.2	13.8	18.5	2.3	-	-	-	-	-	-
Rural Banks	5.6	2.3	13.7	1.7	67.4	1.6	180.1	2.0	212.8	1.4
Non-bank financial institutions	**58.9**	**23.8**	**191.8**	**23.9**	**810.3**	**19.6**	**1,816.1**	**20.1**	**2,920.9**	**19.1**
Government	20.1	8.1	107.8	13.5	473.4	11.4	-	-	-	-
Private	38.8	15.7	84	10.5	336.9	8.1	-	-	-	-
Total	**247.7**	**100**	**801.3**	**100**	**4,137.1**	**100**	**9,046.3**	**100**	**15,327.1**	**100**
Total Assets/GDP	91.7%		67.1%		115.5%		100.5%		115.2%	

Note: Trust accounts also play a significant part in the financial sector as these account 24.3% and 16.7% of the total assets in 2010 and 2015, respectively. See BSP website for definition of NBFIs.
Source: Bangko Sentral ng Pilipinas (BSP)

most important segment, with government pension systems accounting for around 2/3 of the sector's total assets. The contractual savings sector helps expand the capital market and develop professional investment/ fund managers (Antonio and Abola, 2005). Besides, total contractual savings have grown significantly to 10.3% of GDP in 2014.

Government-sponsored pension systems held total assets of P1.7 Trillion in 2014, the largest being the Government Service Insurance System (GSIS, for public sector employees with assets of P907 B), the Social Security System (SSS, for private sector employees and self-employed, P395 B), and the Home Development Mutual Fund (P379 B). The private sector, mostly life insurance firms, had P847.4 B in assets.

In 2008, the Personal Equity and Retirement Account (PERA) Law aimed to expand the retirement options of Filipinos, in addition to the GSIS and SSS. Membership in PERA is voluntary, and may include GSIS/ SSS members. (Kilayko, 2014; Tiongson, 2015).

This paper focuses on the two major components of the capital market – the equities and the fixed-income securities markets.

The Philippine Equity Market

In 1996, the market capitalization to GDP ratio (MCG ratio) of the Philippines peaked at 97.3% before succumbing to the Asian Financial Crisis (AFC) and political problems. MCG had an upward trend from 2003 and reached 101.2% in 2015, breaking the 1996 record– interrupted only by the Global Financial Crisis (GFC). (Figure 1).

Philippine Stock Market in General

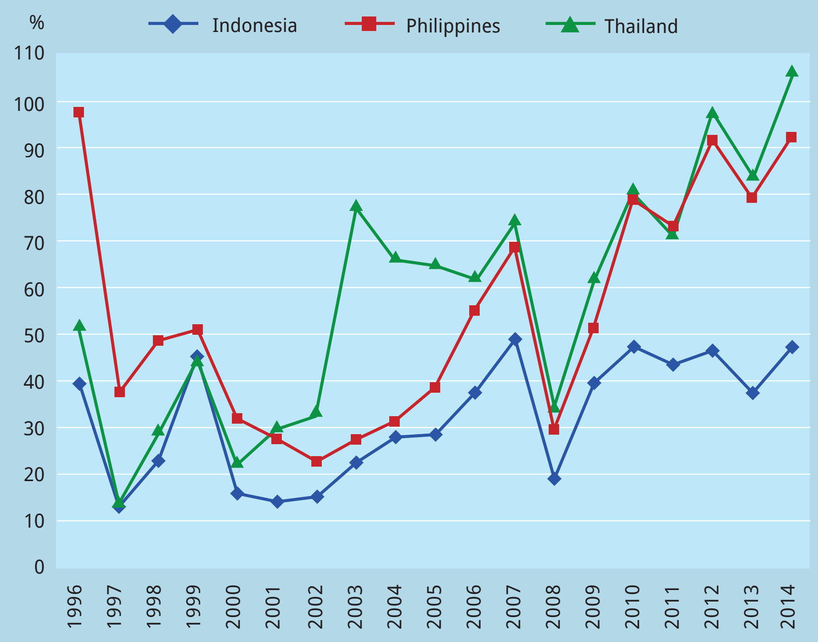
The Philippine Stock Exchange (PSE), housing 264 listed firms, is the main institution for initial public offerings and secondary market stock trading. It is a self-regulatory organization sanctioned by the Securities and Exchange Commission (SEC), the regulatory body overseeing corporations and stock market activity.

PSE provides the trading platform known as PSETrading (able to handle a million transactions daily), which was acquired from the New York Stock Exchange. Its regulatory division has been separated as a subsidiary (Capital Markets Integrity Corp). It provides audit, surveillance, and compliance oversight over the stock market participants/activities with the Total Market Surveillance System acquired from the Korea Stock Exchange in 2012.

Matching of trades is done electronically, with anonymity preserved. All trades, including online, pass through brokers who charge a minimum of 0.25% of trades. A 0.5% transactions tax on the sale is charged to the seller in lieu of capital gains tax.

Stock prices and market activity are

Figure 1: Market Capitalization to GDP Ratios of Selected ASEAN Economies, 1996-2014



Source: World Bank

Table 2: Compounded Annual Growth Rates PSEi, 2000-2015

	2000-05	2006-10	2010-15	2000-15
PSEi	7.0%	14.9%	10.6%	10.8%
Financial		3.7%	10.0%	7.2%
Industrial		16.3%	8.8%	12.1%
Holdings		18.3%	14.3%	16.0%
Property		5.4%	13.0%	9.6%
Services		1.6%	-0.8%	0.3%
Mining & Oil		32.1%	-5.7%	9.6%

Note: Sector indices started only in 2006.
Source: PSE

on real-time and summarized in two main stock price indices. One is the 30-share Philippine Stock Exchange Index (PSEi), and the other is the overall All Shares Index and six sectoral indices.

Settlement of trades is T+3 under a scripless system. PSE's subsidiary, Securities Clearing Corp. Of the Philippines acts as settlement coordinator, risk manager for broker transactions, and administrator of the trade guaranty fund.

While the country has no stock index futures market, PSE in 2013 teamed up with the Singapore Exchange to launch SGX-PSE MSCI Philippines Index Futures in Singapore.

Performance of PH Stockmarket

Table 2 shows the compounded annual growth (CAGR) of PSEi from 2000 to 2015 at 10.8%. If we start from 2006, the CAGR was more impressive at 12.6%. Sectorally, only the Services sector and Mining & Oil (due to falling commodity prices starting 2014) landed in negative territory. The Holdings sector performed best, in tandem with fast economic growth. The Industrial sector reflected the capacity/efficiency gains of energy firms, while strong residential demand and BPO-driven uptake of commercial space boosted the Property sector.

The market appears pricey, as the PSEi's Price-Earnings (PE) ratio also has been rising (ref. Figure 2). Dividend yields have been on the low side—usually from 0.3% to 2.5%, with some notable exceptions.

Fund-raising through IPOs and Stock rights offerings has been rising as detailed in Table 3. Notably, it raised $1 B or more since 2010, reaching a peak in 2012. The slowdown in IPOs may be due to the scarcity of candidates.

Valeroso (2012), studying 69 firm IPOs during 1997-2010, found average open-

Table 3: New Capital Raised in Stock Market, 2006-2015 (P Millions)

	No. of IPOs	Avg IPO Size	IPO	Stock Rights	Total New Capital Raised	in US$
2006	4	6,382.24	25,528.96	2,283.98	27,812.94	542.01
2007	10	2,503.71	25,037.08	16,640.43	41,677.51	903.12
2008	2	5,081.21	10,162.41	6,276.52	16,438.93	369.63
2009	1	20.01	20.01	4,315.15	4,335.16	91.00
2010	3	9,362.70	28,088.11	51,888.26	79,976.37	1,772.93
2011	5	2,057.76	10,288.82	40,608.74	50,897.56	1,175.11
2012	5	5,408.13	27,040.66	52,068.21	79,108.87	1,873.34
2013	8	7,082.65	56,661.20	2.43	56,663.63	1,334.95
2014	5	2,637.51	13,187.57	45,603.39	58,790.96	1,324.26
2015	4	1,299.42	5,197.67	48,404.00	53,601.67	1,177.98

Source: Technistock, PSE

Figure 2: Performance of PSEi, 1995-2016

Source: Bloomberg

ing-day returns at 8.05% and the one-year aftermarket returns at -0.10%. These were much lower than those for 1987-1997. Using multiple regression analysis of IPO returns and analysis of variance, the following–offer size, firm age, industry, underwriter reputation, and the 91-day T-bill rate—were statistically insignificant. Only the number of IPOs in the previous 30 days appeared negatively related to underpricing.

Improvements Since the AFC

Antonio and Abola (2005) stated several challenges to the equities market in the aftermath of the AFC, including: heavy dependence on foreign capital, high transaction costs and loss of credibility.

First, foreign capital had been historically important to the market with the severely negative impact of the massive outflow of foreign funds during and after the Asian Financial Crisis. However, this dependence has diminished significantly, attested to by the local stock market's continued rise despite the exit of foreign funds after the GFC.

Second, in the late 1990s the Philippines had the second highest transaction costs after South Korea, due to elevated documentary stamp taxes (0.10%). In 2008, this tax was removed.

Third, credibility of the stock market had been damaged during the Estrada Administration by the Best World Resources (BW) scam, one of the biggest frauds in local stock market history. Thereafter, a more professionalized PSE, a strengthened SEC under President Benigno Aquino III, and strong economic fundamentals enabled the country to weather the GFC relatively unscathed, and to revive foreign investor interest.

Boosters and Drawbacks in the Stock Market

Congress enacted in 2008 and 2009 two laws that would directly benefit the stock market. The PERA law (earlier discussed) took effect in 2008. The following year, the Real Estate Investment Trust law aimed to incentivize placing income-generating properties like office, retail, etc. in a listed trust fund, provided the company that owns them is listed in the stock market and distributes 90 percent of net operating income as dividends. The Bureau of Internal Revenue finally issued the Implementing Rules and Regulations for the PERA law only in July 2016, and a revised one for the REIT law also in the same month.

In addition, the Credit Information System Act (CISA) of 2008 established the Credit Information Corporation which would house the database of all borrowers of financial institutions. The Financial Rehabilitation and Insolvency Act became law in 2010. It provided special privileges to financial market transactions (as well as fairer policies and procedures for bankruptcy actions) (Lim, 2016).

Some issues, however, remain to be resolved: (a) disallowance of short-selling, (b) high brokers' fees relative to other ASEAN countries, (c) limited analytical capabilities of the PSE electronic platform, and (d) the preponderance of poorly capitalized small brokers generally averse to ASEAN integration.

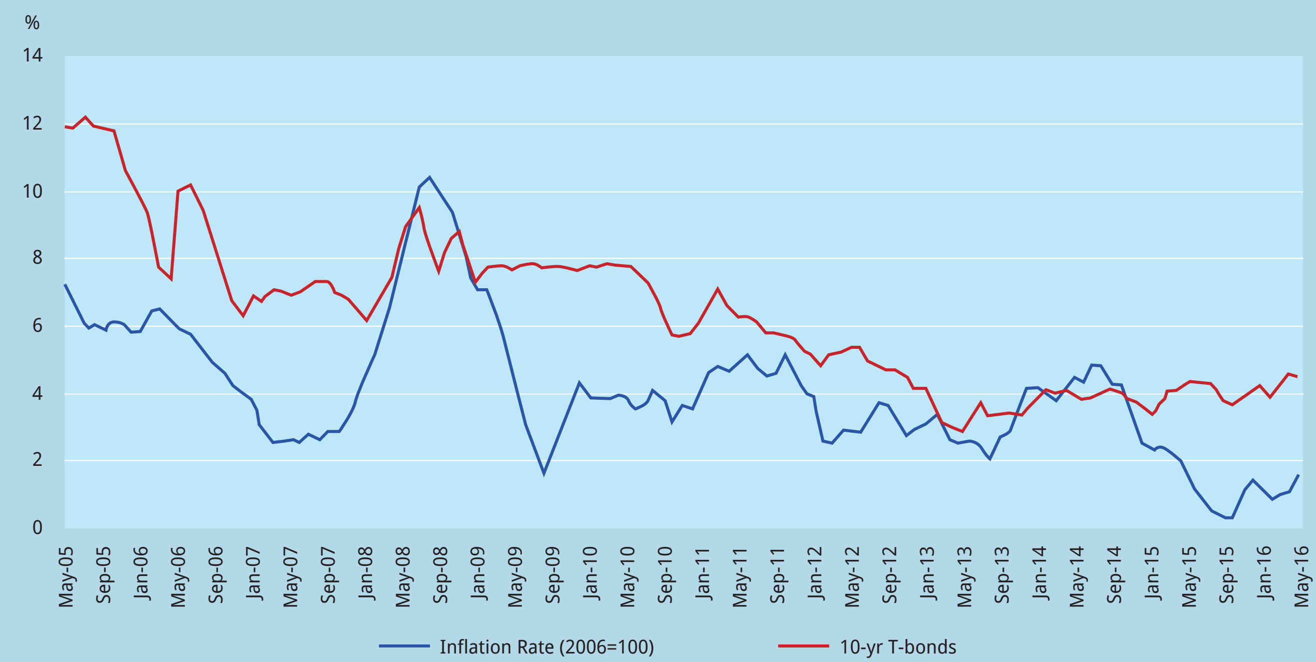
Despite these issues, the positive legal developments, improved corporate governance and stricter government regulations, should add more years to the stock market boom since the GFC.

Fixed-Income Securities Market

General Features of Market for Government Bonds

The market for Treasury bills (T-bills) opened in 1966 to enable the National Government (NG) to finance its deficits through the money market instead of

Figure 3: 10-yr T-bond Yields and Inflation Rate, May 2005 to May 2016



Source: Bangko Sentral ng Pilipinas, PDeX, PSA through the country's central bank. Since 1994, the Bureau of the Treasury (BTr) handles issuances of government securities (GS)—for both T-bills and Treasury bonds (long-term T-bonds or FXTNs) with tenors up to 25 years. BTr auctions are open to 37 Government Securities Eligible Dealers (GSEDs), which bridge the issuances from the government to public investors. (BTr website)

Philippine Dealing and Exchange (PDeX) handles all transactions since 2006 together with the Registry of Scripless Securities (ROSS). Settlements are at end-of-day net offsetting of GSED accounts with the BSP. A 20% final withholding tax on interest income is imposed even on GS.

The nearly fivefold growth of the GS market from 1995 to 2015 may be seen in Table 4. Prior to 2000, T-bills dominated the issuances. In 2001, NG began issuing retail treasury bonds (RTBs) to provide small retail investors' access to GS with P5,000 as the smallest denomination and limiting GSED's holdings of RTBs.

Moreover, as interest rates were falling (Figure 3), the government issued more T-bonds which now account for 93.2% of the outstanding value of regular issues of GS and 2.33x the value of RTBs. Dispo and Abola (2015) noted that with more T-bond issuances NG cash flows improved.

In 2006 BTr introduced bond exchanges/swaps to smooth and lengthen its debt maturity profile and to establish liquid benchmarks for long-term financing to support government/private sector initiatives, e.g., PPP for infrastructures, etc. (Asian Development Bank, 2012) The first bond exchange in 2006 involved bonds maturing until 2009 which swapped for Php 490 B of fresh 3-, 5-, and 7-year T-bonds. Thereafter, bond exchanges became more frequent (Dispo & Abola, 2015).

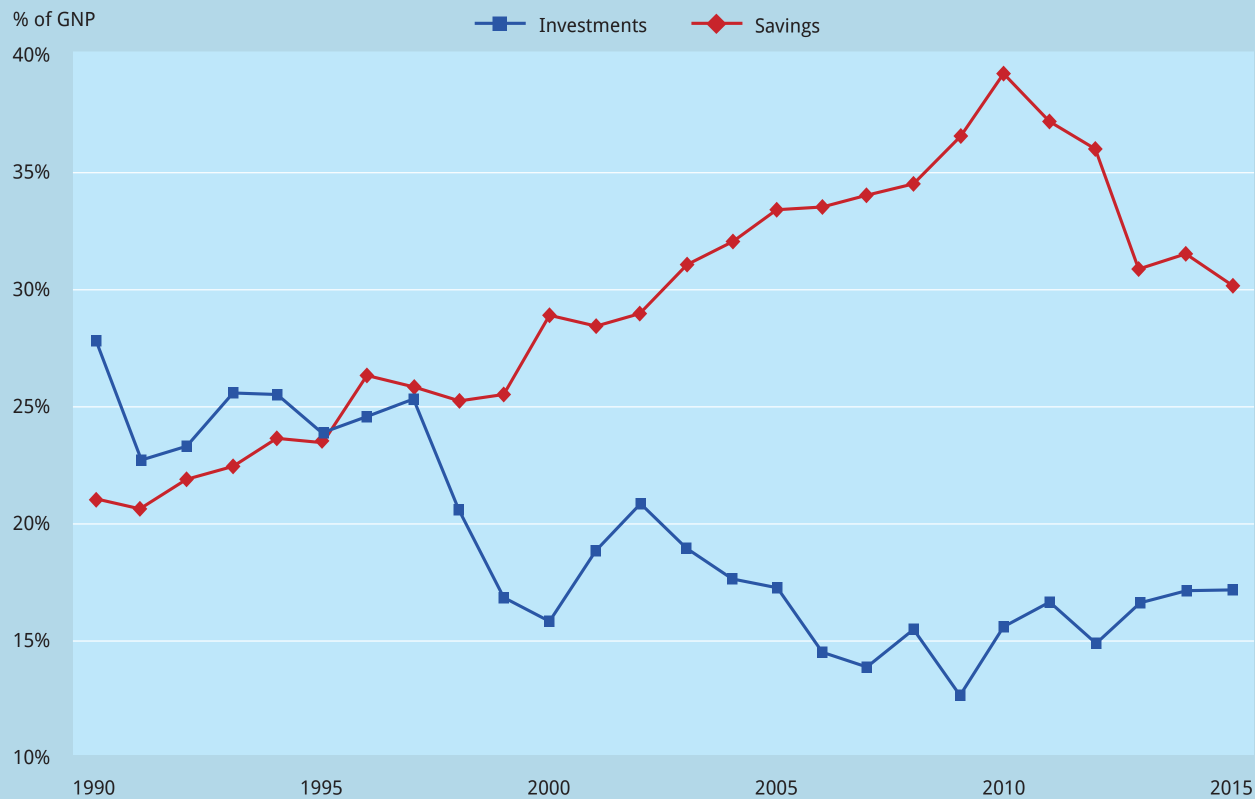
In a 2010 initiative, NG issued multicurrency retail treasury bonds (MRTB) to help overseas Filipino workers (OFWs) and migrant Filipinos safeguard their for-

Table 4: Outstanding Value of Regular Issue Government Securities, 1995-2015 (in Billion Pesos)

	1995	2000	2010	2015
TOTAL	**667.26**	**1,043.85**	**2,809.41**	**3,916.78**
I. National Government Issues	**661.95**	**1,033.54**	**2,709.10**	**3,883.78**
Regular Issues	**450.24**	**901.74**	**1,395.05**	**2,019.03**
A. T- Bills	391.25	467.28	527.41	264.44
B. Fixed Rate T- Bonds	58.99	434.47	867.64	1754.59
3-yr	-	-	108.63	145.55
4-yr	-	-	3.35	-
5-yr	30.00	116.57	49.54	226.40
7-yr	-	99.64	193.06	469.13
10-yr	-	98.45	235.96	379.12
20-yr	-	9.84	137.71	298.33
25-yr	-	5.79	139.30	235.98
Special Issues	**-**	**38.25**	**1,314.05**	**1,864.75**
A. Retail T- Bonds	**-**	**-**	**292.15**	**753.20**
3-yr	-	-	58.87	-
5-yr	-	-	148.19	27.49
7-yr	-	-	61.31	49.35
10-yr	-	-	23.78	74.71
10-yr	-	-	-	194.03
15-yr	-	-	-	95.81
20-yr	-	-	-	132.68
25-yr	-	-	-	179.13

Source: Bureau of the Treasury (BTr)

Figure 4: Savings and Investments Gap, 1990-2015



Source: Philippine Statistics Authority

eign currency savings. The first tranche amounted to USD400 M and EUR75 M. As incentive to OFWs, NG assumed the 20% final withholding tax on the bonds' interest income. (Asian Development Bank, 2012)

Antonio and Abola (2005) noted the challenge of T-bills commanding yields higher than similar tenored time deposits. They cited market imperfection due to buyers' side weakness coupled with strong market power of UKBs as a possible cause.

Secondary Market Development

Philippine GS secondary market is relatively small compared to ASEAN's more developed bond markets but is already large enough at USD84 B to be sufficiently deep and liquid (Dispo and Abola, 2015).

After PDeX became fully operational in 2006, liquidity in the GS bond market greatly improved as indicated by the huge jump in the bond turnover ratio, (i.e., the volume of transactions as a percentage of total outstanding debt) to 98% in 2013 from 30% in 2005, besting Malaysia and Singapore, albeit with much smaller volumes.

Table 5: Yields on Long-term PH Government Bonds

	Sep-02	Apr-16
1-year	7.17	2.33
2-year	9.2	3.23
5-year	11.78	3.52
10-year	12.58	4.63

Source: Asian Wall Street Journal & Philippine Dealing Exchange

The large drop in average bid-ask spreads to 3.4 bps in 2015 from 47.5 bps in 2000 (ibid.) confirm better liquidity.

Considering that tax-exempt institutions (TEIs, e.g., GSIS and SSS) hold more than P500 B of GS, BTr allowed TEIs to trade in the ordinary secondary market starting May 2015. The move sought to deepen the secondary market since previously TEIs could only trade with one another, over-the-counter (Dispo & Abola, 2015).

Yields for all tenors trended sharply downward (Figure 3) since 2005. Yields have fallen due to slower inflation which averaged 3.35% in 2010-2016, and greater domestic savings (Figure 4) due to OFW remittances. Table 5 illustrates the plunge in yields from 2002 to 2016.

Antonio and Abola (2005) cited several reasons why the secondary market remained fairly illiquid viz: (1) propensity of banks to hold on to existing issues; (2) inefficient trading system; (3) lack of market makers; (4) heavy taxation of secondary market transactions; and (5) lack of investor interest.

The first has remained a concern since banks still hold large amounts of GS, and this may decline only with the emergence of a much bigger corporate bond market.

Secondly, inefficient trading system occurred at that time with one-on-one, barter-like trading system. Largely solving this, PDeX's electronic trading platform, albeit imperfect, has improved efficiency and lessened transaction costs.

The third is no longer an issue since large banks have sizeable GS holdings and often act as *de facto* market makers.

As seen earlier, documentary stamp taxes on secondary trading of debt and equity instruments have been scrapped.

The earlier problem of lack of investor interest, due to high and volatile interest rates, market illiquidity and lack of market knowledge, is being addressed given the rising number of retail buyers. Besides, the rapid increase of mutual funds and Unit Investment Trust Funds has provided greater understanding and demand for bond investments.

Corporate Bond Market

The Philippine corporate bond market includes long-term corporate bonds and notes. The latter (classified as commercial papers) are originally issued to no more than 19 buyers, but are later tradable. This enables firms to avoid an initial 20% final withholding tax, and certain registration requirements (e.g., prospectus, etc.). Since 2015 SEC allows shelf registration (including both short-term and long-term debt papers).

Long-term corporate bonds/notes outstanding rapidly grew from negligible levels in 2000 to US$ 17B or 5.9% of GDP by 2015.

In November 2007, PDeX opened a trading board for corporate securities with the listing of a 5-year fixed-rate corporate bond. In 2008, PDeX allowed the public to trade through accredited brokers. This led other large corporations, including government corporations, to issue more bonds. From 2006 to 2015, 89 firms, mostly listed in PSE, issued bonds (Dispo and Abola, 2015). Nonetheless, secondary trades remained low with a bond turnover ratio of 4.9% in 2015.

Challenges of the Corporate Bond Market

Antonio and Abola (2005) identified challenges to the corporate bond market, apart from those in common with the GS market mentioned earlier. They highlighted four factors, namely, (a) lack of mandatory listing, (b) lack of credible credit rating agencies, (c) misalignment of accounting and auditing standards to international standards and (d) lack of standards for good corporate governance.

The first two remain as challenges, while the last two have been resolved.

Since 2007, the country has been following International Accounting Standards (IAS) wherein the Philippine Financial Reporting Standards (PFRS) are essentially consistent with the International Financial Reporting Standards (IFRS).

After the AFC erupted, the private sector launched the Institute of Corporate Directors (ICD). ICD aimed to determine the key issues in governance and improve it among East Asian economies and to identify and spread the best practices in corporate governance. Moreover, it issued guidelines on Corporate Governance Reform, which are now in place.

Thereafter, BSP adopted the Basel rules and standards on corporate governance of 2010. PSE crafted a regularly updated handbook which contains guidelines and best practices. In 2009, SEC issued a revised code of corporate governance to companies involved in the stock and bond markets.

Besides, an ASEAN Corporate Governance Scorecard has been developed, in line with the OECD best practices and guidelines. Presently, listed Philippine companies have fared better, albeit with room for further improvement, (Asian Development Bank, 2014) since the 2016 awards to the top 50 ASEAN listed firms based on their Corporate Governance scores included 11 Philippine companies (ICD Website).

Current Challenges and Reforms Needed

Dispo and Abola (2015) discussed some challenges faced by the Philippine bond market for which they also offered detailed recommendations. They categorize these into: Market Infrastructure, Legal, Tax & Regulatory Aspects, Infrastructure & Institutional Aspects.

Regarding market infrastructure, the reforms they suggested include: (1) mandate all issuers to list all issuances in PDeX to enable the investing public to liquidate their bonds at their discretion; (2) modify the 19-lender Rule to apply only to small companies's tiny bond issuances enabling large issuances to be traded in PDeX to foster greater liquidity in the secondary market; (3) Benchmark setting of PDeX: Revise Rules as to (a) require to quote PRICE upon entering an order, (b) impose penalties on 2-way quotation violation, (c) provide for a successor benchmark/formula to PDST-F which is no longer a benchmark starting April 1, 2015 and (d) make bid-ask quotes binding and computerize matching of trades; (4) improve the PDST-R1 and PDST-R2 guidelines so that benchmark yields avoid being distorted by illiquid issues; and (5) improve the settlement system through the inclusion of settlement and/or funding advise and investment in infrastructure upgrade.

With regard to legal and regulatory issues, the policy recommendations include: (1) reduce SEC fees and documentary stamp taxes in line with international standards; (2) enforce stricter regulation of banks in which buying of bonds should not replace lending; (3) implement higher obligatory allocations of credit resources for government-owned banks and lower obligatory allocations imposed on private banks; and (4) craft a uniform tax rate (e.g., 10%) on all interest income and remove exemptions, thus levelling the playing field.

In terms of institutional issues, the recommendations include: (1) full implementation of the 19-lenders rules and sanctions as above; (2) lower the SEC registration fee schedule; (3) unify regulatory responsibility to one government body or at least release joint circulars from BSP and SEC to ensure uniform disclosure/compliance requirements; (4) enhance the credit rating system; and (5) avoid conflict of interest of UKBs by disenfranchising "universal banks" which have a blanket permission own thrift/rural banks, investment houses, and other NBFIs with quasi-banking functions.

Integration into ASEAN & the Future

Capital market integration within ASEAN will likely lead to greater market liquidity, lower transaction costs and equity/bond premiums because of subscale trading volumes and largely closed markets through capital account restrictions in the smaller markets. Besides, it will promote a more resilient and robust financial market to prevent the occurrence of another AFC like the 1997-98, crisis, provide access to a larger capital base, enhance economies of scale, and provide more diversification possibilities for investors/lenders.

Despite the varying development of local currency bonds and equities markets in the region, Park (2014) notes that integration is gradually happening. The markets are experiencing convergence since 2000 especially among the financial markets in emerging Asia, including ASEAN.

In sum, the Philippine GS bond market is practically ready for integration, while the corporate bond market is not. The stock market could be integrated if small brokers can be convinced to consolidate or significantly increase their capitalization.

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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.

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. - 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

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 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 disintermediation, 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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Vietnam's Securities Market - 16 years of establishment and development (2000-2016)

Overview of Vietnam's Securities Market

In the initial stage of the securities market, with the establishment of Hochiminh City Stock Trading Center*[1] on 20 July 2000, there were only 2 listed companies with total capitalization of 986 billion VND*[2] (amounting to 0.28%/GDP in 2000). Up to end of 2015 Vietnam's stock market has 686 listed companies and listed investment funds in 2 stock exchanges in Hochiminh City (HOSE) and in Hanoi (HNX), not including 300 unlisted companies registered for trading in UpCoM in Hanoi. The total capitalization of the stock market is 1.36 quadrillion VND (an increase of 17% compared to the same period of 2014, and 1,300 times compared to 2000), equal to 34.5% of GDP 2015. The total outstanding volume of the bond market reached 24.13% of GDP. Therefore, the total capitalization of the whole capital market reached 59% of GDP 2015.*[3]

Hochiminh Stock Exchange (HOSE)

Those companies with registered capital at least 120 billion VND and meeting the listing rules in Decree 58/2012/NĐ-CP and Decree 60/2015/NĐ-CP are eligible to be listed on HOSE. By the end of 2015, HOSE had 307 listed stocks with total capitalization of 1.14 quadrillion VND (equal to 27.3% of GDP 2015), accounting for 88% of the total listing capitalization in Vietnam's stock market. The average trading volume per day is 1.94 trillion VND, accounting for 70% of the whole market.*[4] Almost all the equitized blue chips in the fields of banking, real estate, oil & gas, manufacturing are listed in HOSE.

The main representative index for HOSE is VN-Index, which peaked at 1,170.76 points (in March 2007). By end of 2015, the VN-Index was at 579.03.

Hanoi Stock Exchange (HNX)*[5]

Those companies with registered capital at least 30 billion VND and meeting the listing rules are eligible to be listed on HNX. By the end of 2015, HNX had 372 listed stocks with the total capitalization of 151 trillion VND. The average transaction volume was up from 3 billion VND/session in early 2000s to 557 billion/session in 2015.*[6]

HNX Index is the representative indicator for the exchange performance, with a peak value of 459.36 (March 2007). The HNX Index stood at 79.96 at the end of 2015.

Apart from the two listing exchanges, the trading system UPCoM in HNX was put into operation in 2009 for unlisted public companies, with the aim to step-by-step narrow the grey market of unlisted companies and to push the transaction and liquidity of the equitized but not-yet-listed stocks of state-owned enterprises (SOEs) and public companies. Thanks to the Decision No 51 of Prime Minister in 2014 to enhance the equitization in association with registration/listing in the stock market in 2014-2015 the UPCoM market grew significantly in both quality and quantity in comparison with the opening period. By June 2016 UPCoM witnessed 300 enterprises registered for trading, with the total capitalization of 100 trillion VND, a 25-fold increase compared to 2009.

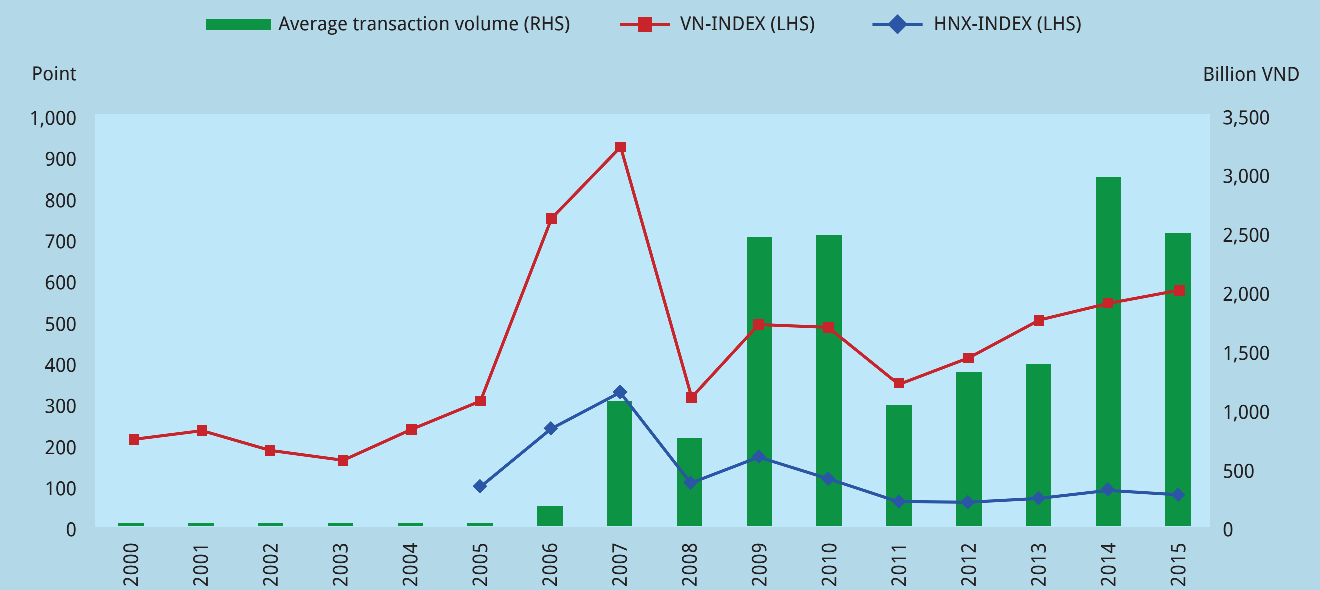
Brief Introduction to Vietnam's Bond Market

Currently, the structure of the bond market in Vietnam mainly comprises government bonds (accounting for 85%-87% market share), meanwhile the corporate bond sector is still very limited, accounting for only 13-15%.

In the period 2000-2003, the bond market is very modest in size, at less than 5% of GDP. In 2004-2009, the Ministry of Finance (MoF) decided to centralize the bond auctions of government bonds in Hanoi Stock Exchange, instead of scattering them through the networks of state and provincial treasuries and commercial banks. Besides, the SSC Vietnam has been authorized to develop the project on government bond market, with the aim to modernize it and approach the international standard.

In 2009, the specialized trading system for government bonds was put into operation on Hanoi Stock Exchange, with around 30 trading members from local big

Figure 1: Indexes and the Average Transaction Volume



Source: SSC (2015)

commercial banks and securities companies. The auctioning, settlement and clearing system was designed systematically and synchronously, independently from the stock market. From 2013, HNX constructed the benchmark curve for the government bonds, which is considered a key reference indicator for the bond market operation.

The primary market: In the period 2010-2015 the government mobilized totally 715 trillion VND via the government bond auctions of all maturities; this was an 18-fold increase compared to the period 2005-2010. Especially, in 2012-2013, the implementation of the electronic auctioning platform in HNX led to a remarkable development of the government bond sector. The total auction volume rose from 28.31 trillion VND in 2010 up to 194 trillion VND in 2013 (nearly 7-fold). The open and transparent electronic auction format on the Exchange made it in the main issuance channel for government bonds at all maturities, with the proportion of auctions via electronic platform increasing from 49% in 2009 to 100% in 2014.[*7]

The maturity structure of the bond market is mainly short term. By the end of 2015, tenors of 5 years or less accounted for more than 70% of the total government bonds issued in that year. The bond market restructuring plan (started in 2012) is carried by MoF with the increasing issuance of 10-year and 15-year tenors, with the aim to encourage the participation of the longer-term institutional investors like insurance. The year 2015 also witnessed the first issuance of Vietnam's longest maturity bonds (20-year and 30-year bonds)

The secondary market: The size of the outstanding bond market was 1.1 quadrillion VND by the end of 2015, equal to 24.13% of GDP 2015. The average growth of Vietnam's bond market reached over 30% per year and 23% of GDP in period 2010-2015, leading the emerging markets in East Asia and in ASEAN+3.[*8]

Market liquidity has also improved much with the average transaction volume in the period 2011-2015 increasing tenfold compared to the period 2005-2010. The average transaction per session was 3.7 trillion VND in 2015.

The investor structure: (i) *by investor type*: Commercial banks are still the major investors in the market with more than 76% share in 2015, while the government giant financial corporations like the Social Security of Vietnam, State Capital Investment Corporation (SCIC) and Depository Insurance of Vietnam hold around 15%. Due to recent government initiatives and policies the holdings of insurance companies increased from 1.18% (2011) to 8.42% in 2015.[*9] (ii) *by geographic location*: foreign investors hold 6%, and local investors, including institutional ones, hold around 94% of the total bond market.

The primary and secondary dealer system: Currently the HNX has 24 primary dealers for the government bond auction market. There are 54 trading participants in the secondary market, of which 27 are commercial banks and 27 are securities companies.

Some shortcomings: Despite remarkable development of the bond market, especially in the government sector, in comparison with other countries, Vietnam's bond market is still small with limited types of products, focusing mainly in the short term maturities. The structure of the market is not complete, the link between the specialized government bond trading platform in HXN and the interbank system under the SBV control has not yet been established. Meanwhile, derivatives products and the derivatives market, which is an important supporting market for the effective operation of the underlying stock and bond markets, are expected to be put into operation by 2017. The investor structure is undiversified, the participation of the long-term institutional investors like insurance companies or investment funds is still very modest in comparison with the overwhelming proportion of commercial banks, who prefer short-term maturities. Due to this, the issuance and trading of long-term bonds is more difficult and illiquid.

The corporate bond sector: The issuers are mainly the local big commercial banks, SOEs in finance, real estate and industrial fields, and some leading local private corporations. Issuance is often by private placement; maturities of 3-5 years account for 60%; and the maturities of more than 5 years account for 30% of the total issuance volume. The offering rate is often equal to the 1-year deposit rate (the average of the largest four state-owned commercial banks) plus a spread of 2-5%. In 2015, the registered issuance volume of the corporate bonds via private placements was 84.31 trillion VND and the actual issued volume was 42.76 trillion VND.

The outstanding volume of the corporate bond sector by the end of 2015 was 142.65 trillion VND, equal to 3.4% of GDP 2015.[*10]

One of the reasons for the limited development of the corporate bond sector is the lack of a system of financial institutions acting as investment bankers to underwrite and as market-makers to match demand and supply for the corporate bond issues and to create liquidity in the market. Besides, there are no professional credit rating agencies (CRAs) in Vietnam as the Decree on the organization of the CRAs in Vietnam just issued by the end of 2014 by MoF.

The project on the strategies to develop the corporate bond market in Vietnam carried by MoF is expected to be completed by the end of 2016 and is expected to create an important foundation for the further development of the sector from 2017.

The Achievements of Vietnam's Securities Market

Regular Amending and Improving the Legal Framework and Market Development Policies

In the initial stage, from 1998 to 2003 two government Decrees, No. 48/1988/ND-CP and later No.144/2003/ND-CP, were considered the legal documents at highest level for Vietnam's securities market, setting up the initial legal framework for the market operation. In 2007, for the first time the Law on securities market was issued and came into effect and it was upgraded and amended in 2011. During the period from 2010 up to now several important regulations and projects were established and submitted to the Prime Minister for approval, such as the Development Strategies for Vietnam's securities market in period 2011-2020; the proposal on the overall structure of the securities market; the project on restructuring and reforming the securities market (2012); anti-crisis plan; and the project on foreign portfolio investment management, and the project on the establishment of the derivatives market and derivatives products.

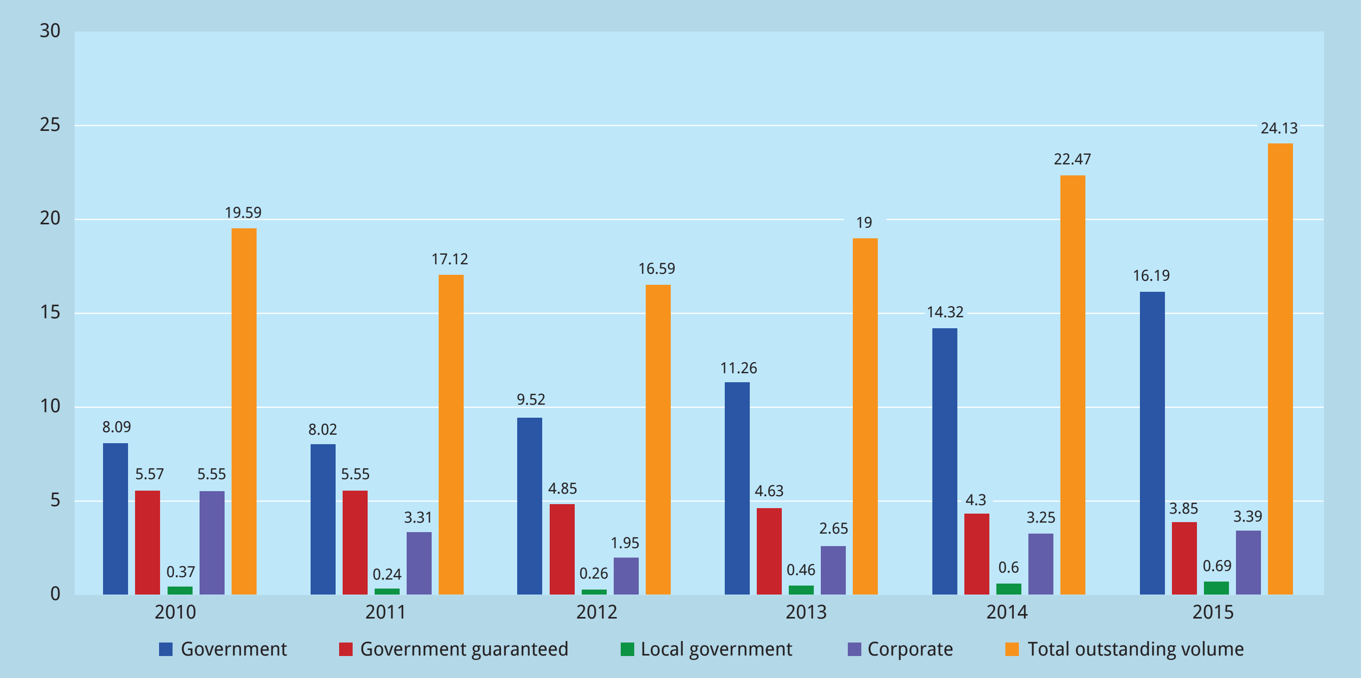
Within 16 years of development, the legal documents have gradually been extended and amended, improving both in quality and quantity. The policies and initiatives for the securities market have also been adjusted and upgraded to meet the changing market environment.

In general, up to now the Law on securities market and other legal documents created a high-level systematic and synchronous legal framework for the development of Vietnam's market, which gradually eliminated the potential conflicts with other related laws and regulations. Such legal framework helped to improve the openness and the transparency of the market, contributed to the management and supervision efficiency, step by step reached the international standards and conventions and created a foundation for Vietnam's securities market to integrate into the world and regional capital market.

Becoming an Increasingly Important Channel for Capital Mobilizing and Funding in Vietnam

The establishment of the securities market in Vietnam has created favorable

Figure 2: Bond Market Size of Vietnam, 2010–2015 (% GDP)



Source: Banking and Finance Management Department, Ministry of Finance (2015) conditions for the government as well as enterprises to mobilize capital for investment and to expand business activities. Over 16 years of the market operation, Vietnam has mobilized nearly 1.5 quadrillion VND (not including the mobilization via the corporate bond market – 2015 figures). In the period 2011-2015 the figure reached 1.2 quadrillion VND, around four times compared to the period 2006 – 2010.

Especially, the securities market has become the main channel for government bond auctions as well as for state budget funding. The total capital mobilized through government bond auctions in the securities market, from 2005 up to end of 2015, was over 833 trillion VND.

Big domestic corporations have also explored the opportunities of IPOs as well as listings to develop and become the regional-level corporations. Specifically, the registered capital of corporations in the VN30 (the top 30 blue chips in HOSE) has grown at a rate of around 60% per year since their listing in the exchange. For example, registered capital of Vingroup and REE increased by 18 times, respectively from 800 billion VND to 15.45 trillion VND and from 150 billion VND to nearly 2.7 trillion VND. Other famous names in the VN30 pool including FPT, VNM, KDC, PVD, SSI, and HPG have averaged growth in registered capital of around 40% to 100% annually.[*11]

So far, mobilization through the securities market meets around 23% of the investment needs for the whole economy, which is equivalent to 60% of the credit supplied through the banking system.

Actively Contributing to the Economy and Banking Restructuring

In the area of public investment, the securities market became a key funding channel for the government budget.

In the area of private investment, the fairness and transparency of the securities market help it become an increasingly attractive investment channel for both institutional and individual investors in Vietnam

The restructuring of the banking system in Vietnam also gain some efficiency from the capital market. Several OTC and listed commercial banks mobilized a huge amount of capital via equity offerings during the vibrant period of the stock market in 2006-2007, which helped them to meet the SBV requirements on charter capital increase.

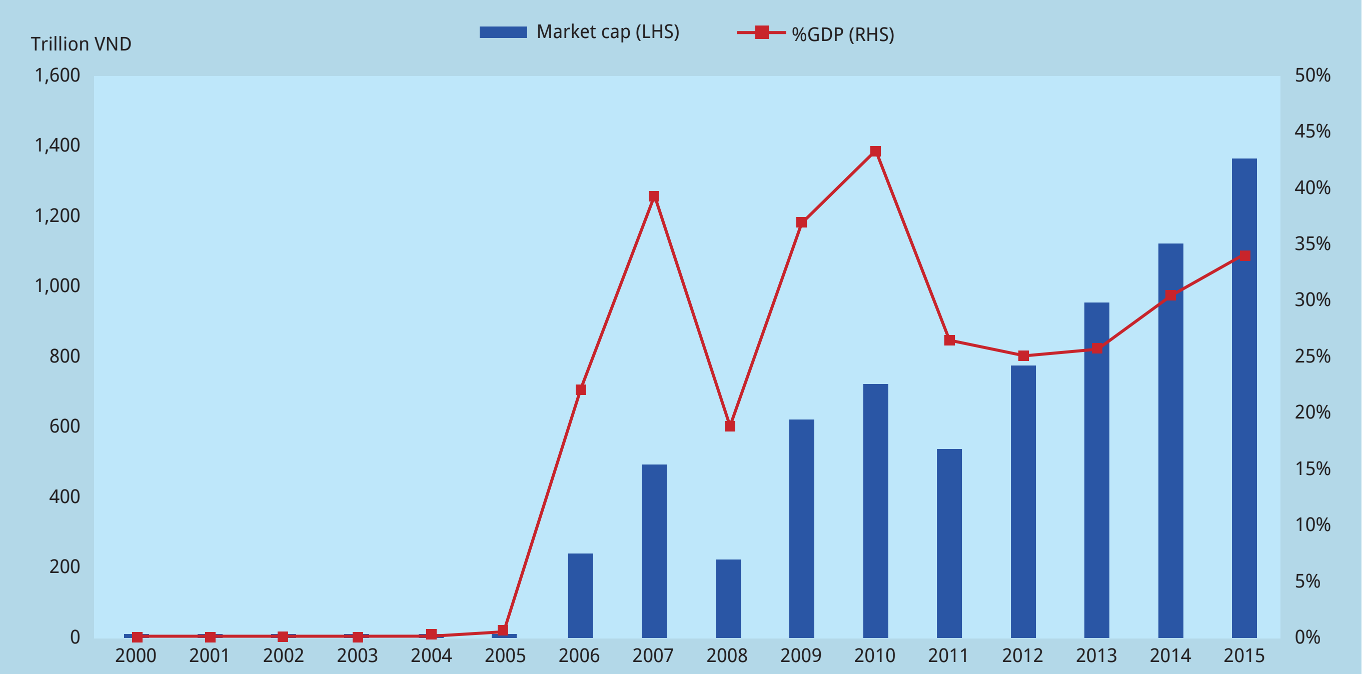
The listings of commercial banks also helped increasing the transparency of the shareholding structure and the activities of BoDs, reducing the cross-ownership and the agency conflicts in Vietnam's commercial banks.

Actively Supporting the Equitization of the State-owned Enterprises (SOE)

Vietnam's securities market also contributed actively in the SOE equitization and reform proccess. In the period 2001-2011, via the arrangements and equitization, the number of SOEs decreased from 5,655 enterprises with 100% state-owned capital (in 2001) to 1,300 enterprises (2012),[*12] which are mainly in the key areas of the economy.

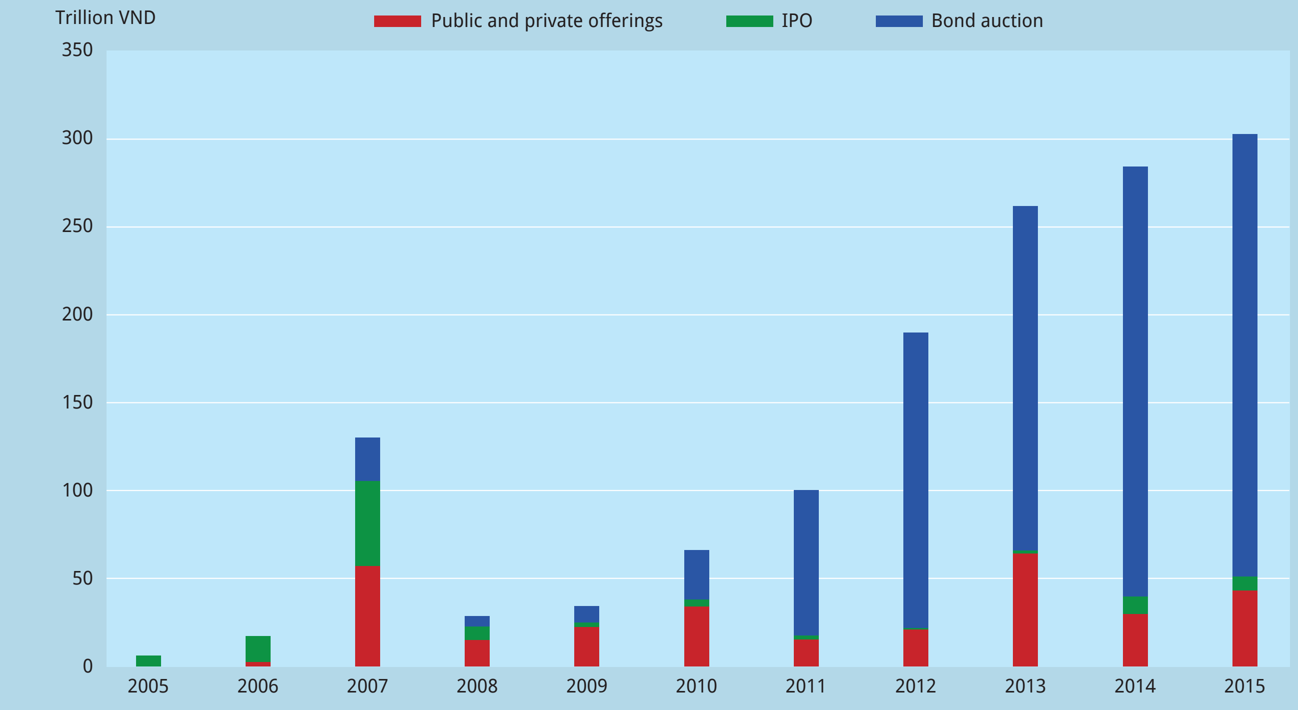
Despite difficulties in some periods, equitization via auctions in the two exchanges recovered in recent years, especially since 2014 with the issuance of the Prime Minister's Decision No.51/QD-TTg on the divestment and equitization of SOEs in association with compulsory registration/listing in the exchanges. In 2014, auctions in the local exchanges and via the securities firms sharply increased, with the total value of the auctions at 13 trillion VND, a four-fold increase in comparison with 2013. The equitization and listing of state-owned enterprises helped diversify the shareholding structure, thereby strengthening supervision and improving performance efficiency.

Figure 3: Stock Market Capitalization of Vietnam, 2000-2015



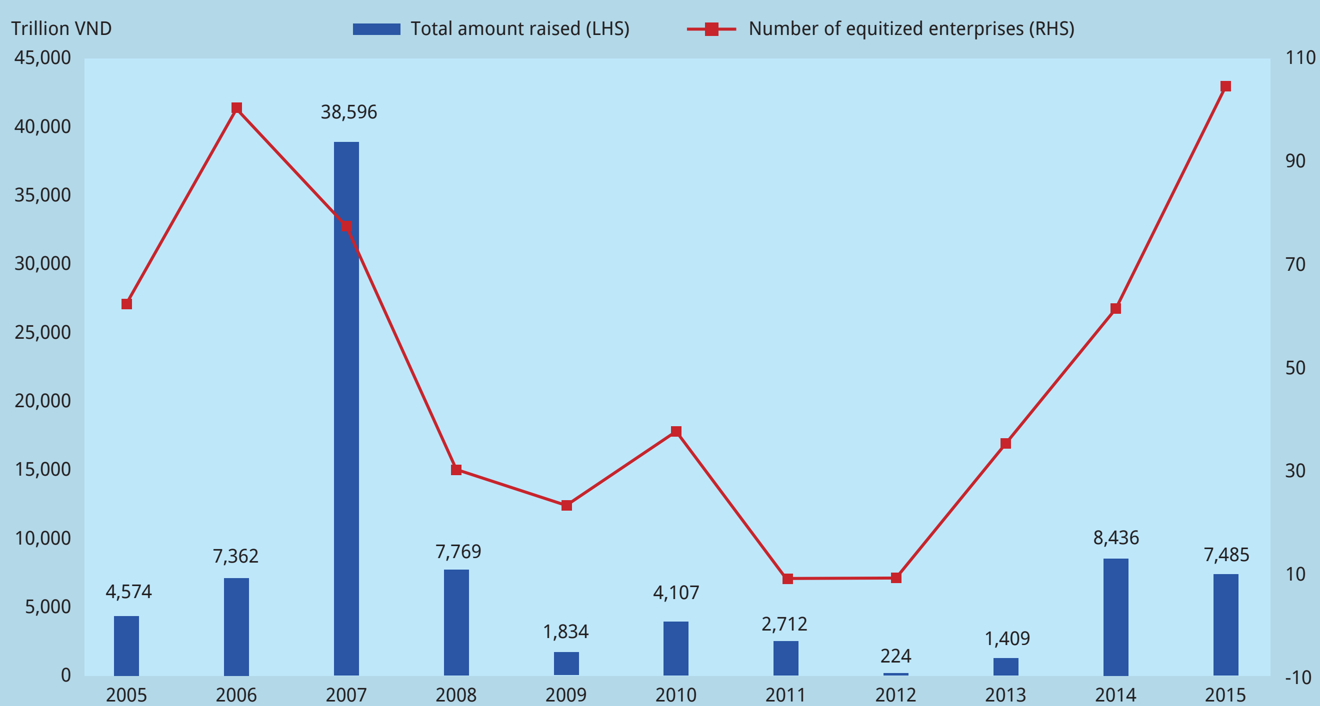
Source: SSC (2015)

Figure 4: Issuance Activities of Vietnam's Securities Market



Source: SSC (2015)

Figure 5: The Equitization Activities of Vietnam's State-owned Enterprises, 2005-2015



Source: SSC (2015)

Setting up New Standards of Corporate Governance in Vietnam and Improving the Transparency and Openness of Listed Companies

Recognizing the important role of good corporate governance (CG), since the establishment, SSC Vietnam has been putting effort into setting up a legal framework for CG, promoting knowledge and materials on international common practices in CG (OECD), with the aim to encourage local listed and public companies to apply good practices in Vietnam.

About 686 listed companies in the two exchanges set up corporate charters that follow the standard corporate charter set by the Ministry of Finance, and 95% of listed companies issued internal control regulations. The independent directors have been appointed in several listed companies and violations on the basic rights of shareholders have been gradually reduced.

Effective Restructuring of the Securities Institutions

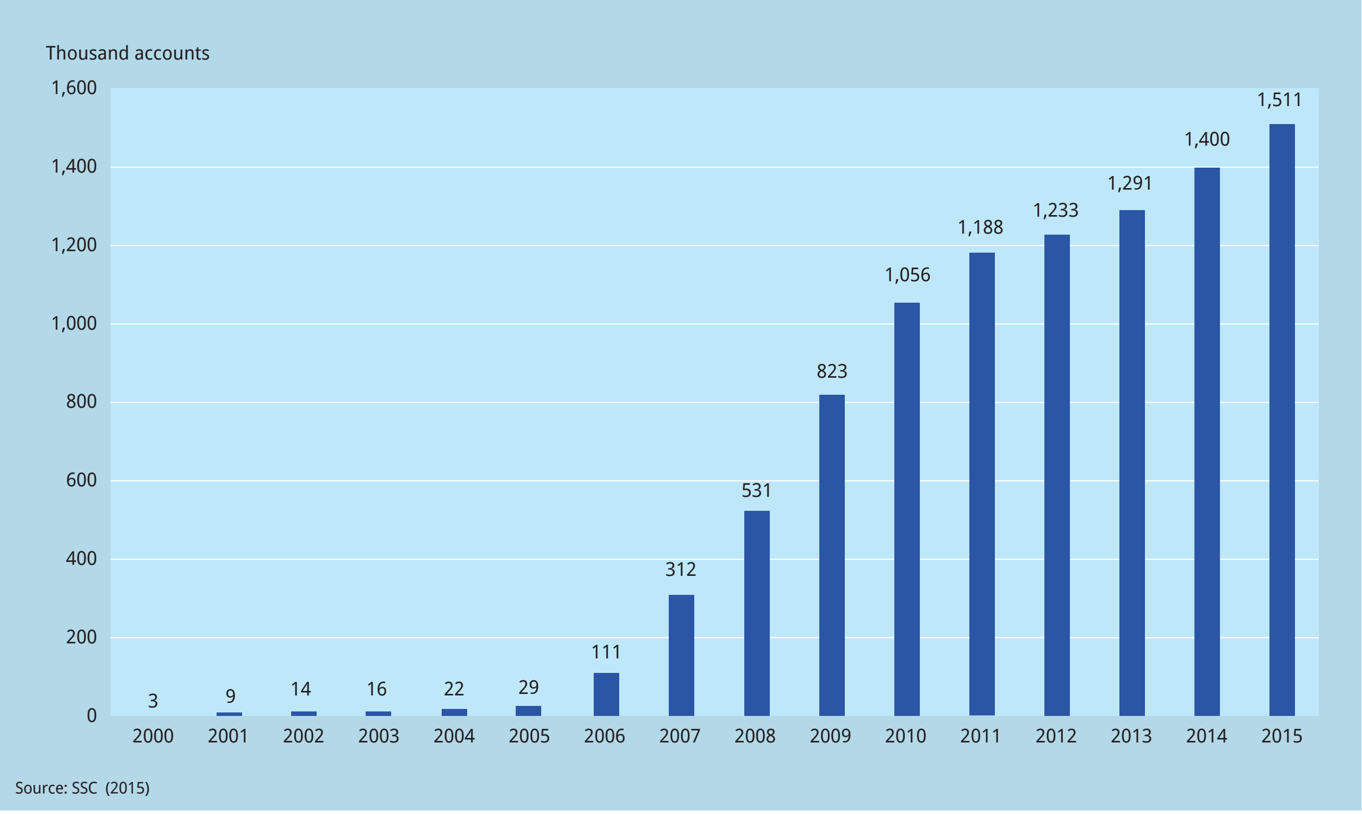
The number of securities companies increased sharply during the peak time of the market 2008-2010 (from only 7 securities companies in 2000 up to 105 securities companies and 47 fund management companies in 2012). With such a quick pace, some small size securities companies were suffering the low-efficient performance as well as low-quality risk management. In 2012, SSC Vietnam started a restructuring plan on the local securities companies, with the aim to strengthen their financial capabilities and improve the supervision and risk management. Upon the restructuring, the number of securities companies was cut by 25% (from 105 to 79) and 24 companies were restructured, merged or liquidated. The performance efficiency of the securities companies has been improved much with the RoE increased by 12%, RoA increased by 10% and the profit increased by 33%.[*13] They are also gradually approaching the international standards such as the capital safety standards of Basel II and the risk management and early warning system of CAMEL rating for financial institutions.

Boosting the Investor Base

With less than 3,000 trading accounts in the early days of the market, up to November 2015 there are around 1.5 million trading accounts. The number of foreign investors increased 2.2 times since Vietnam joined WTO in 2007, reaching nearly 20,000 accounts. The total volume of the foreign investor portfolios increased from 6.34 billion USD in 2009 to nearly 15 billion USD in 2015.

Among the reasons for such improvement was the issuance of Decree 60 in 2015, which allows the foreign investors to buy with no limits government and corporate bonds and listed stocks that are not on the conditional businesses list. This policy was seen as a breakthrough by the government to encourage foreign investments and their deeper involvement in the market. However, there are some key issues that need further clarification such as the detailed list of the conditional businesses following the Decree 60 and, in line with the Foreign Investment Law, how to treat the local listed companies turning into the foreign-invested companies (when the foreign investor holding in these companies is over 51%). Such a legal documentation is prepared by SSC Vietnam to solve these issues and is expected to be complete within 2016. Besides, in order to simplify the investment procedures in Vietnam's stock market, a registration system for online trading code for foreign investors is soon to be completed and put into operation by 2016.

Figure 6: The Number of Foreign Investor Trading Accounts, 2000-2015



Source: SSC (2015)

Some Shortcomings and Challenges

Market size and products, market liquidity and depth: The stock market is characterized by a large number of listed companies with low average capitalization, with about 50% of the listed companies having charter capital of less than 100 billion VND.[*14] Many listed companies in the banking and insurance areas have large capitalization but low free float. On the exchanges, products are undiversified, mainly consisting of stocks and government bonds, with few investment fund units listed. The derivatives and derivatives market, which are considered effective hedging tools for investors, are expected to be in operation by 2017.

The equitization and divestment of large SOEs has been accelerated but it has not yet created a big change in corporate governance in these companies, the proportion of large SOEs offerings to external investors is still modest.

The bond market is still small compared to other countries in the region, especially in the corporate bond sector. There is a lack of professional credit rating agencies as well as a system of primary dealers and market makers.

Investor structure: There is a lack of professional long-term investors like investment funds, retirement funds and insurance companies to solidify and diversify the investor structure. The majority of participants in the market are still individual investors, who often have short term investment taste and herd behavior that make the market volatile. The financial literature and experience of the public investors is limited, especially the understanding of shareholder rights in the corporate governance issues relating to the listed companies.

Financial institution system: There is a mismatch between the quantity and quality and inequality among the local securities companies in terms of financial capabilities, human resources, market share and services provided to the investors. For example, up to 2012, the top 20 securities companies held nearly 70% market share and top 10 fund management companies held nearly 90% of the total asset value in the fund industry.[*15]

The Policy Outlook for the Securities Market in Vietnam

The two important documents that created a solid and strategic foundation for the development of Vietnam's securities market for the coming years are the Strategy for the development of Vietnam's securities market in the period 2011-2020 and the Restructure plan of Vietnam's stock market and insurance market (both issued in 2012).

The specific targets set by the Development strategy include:

- Enhance market size, market depth and liquidity (with target stock market capitalization of 70%/GDP and bond market capitalization of 38%/GDP by 2020; diversify the investor base and improve the system of institutional investors).
- Enhance the market efficiency (restructure and merge the two current exchanges towards one stock exchange structure, step-by-step capitalize the stock exchange with the aim to improve the governance capabilities and attract the capital of the market participants, modernize the infrastructure, diversify the trading methods and investment products and so on).
- Continue to restructure and enhance the competitiveness of local financial intermediaries and open the market for the foreign financial institutions in accordance with the commitments roadmap and the competition level of the local institutions.
- Improve the management, supervision and surveillance capabilities of the regulation organizations.
- Join the linked market of Asean region and the world in accordance with the development roadmap, enhance the competitiveness and abilities to control and limit risks, and gradually narrow the development gap between Vietnam's securities market and other markets in the region and in the world.

To realise the important targets mentioned above, one of the orientations for Vietnam in the future is "to be active and take the opportunities to integrate into the international financial market, step-by-step approach the common international standards and conventions"

Through the integration the local institutions and investors will be able to access the high quality and diversified services and products; the local financial intermediaries can be upgraded, the local investor base can be consolidated and diversified. Besides, the local enterprises will have more access to international funding channels. The flow of indirect investments can also be supervised in a better way due to the closer cooperation among the regulatory agencies of the countries within the bilateral and multilateral frameworks.

However, opportunities always come in parallel with challenges. The challenges that Vietnam should recognize well can be (i) the local securities companies and investment fund management companies will be under tougher pressure from the competition with the large and experienced foreign securities companies and funds, who have advantages in capital, business strategies and network, professional management and technology; (ii) the potential risks of cross-border violations in the global securities markets (e.g., money laundering, fraud, insider trading) in addition to the market distortions and speculation due to the involvement of the giant foreign speculators. (iii) the challenges to complete the legal framework, market structure, and capabilities of the regulatory agencies and their staff in the context of the international integration.

Beside the tasks to take the best chances and limit the inherent risks of the integration process, Vietnam should also implement the following measures:

- Accelerate the legal framework toward the international standards.
- Continue to push the equitization process of large SOEs linked with the registration/listing in the stock market with the aim to enhance transparency and information disclosure and corporate governance of the equitized and listed companies.
- Amend the regulations and rules on the foreign ownership share in enterprises in accordance with WTO commitment.
- Implement the initiatives to encourage the domestic and foreign capital flows into the market such as the plan to promote Vietnam's securities

market from frontier to emerging market (based on MSCI market classification); promote initiatives to accelerate the participation of foreign investors; increase the freely traded stock proportion in the listed SOEs, which have a majority holding by the State.

- Promote new and diversified products and markets in parallel with their risk management.
- Complete the second stage of the Restructure plan of Vietnam's securities market in period 2011-2020 based on the four major components: stock exchanges, listed products, investor base and financial intermediaries system.

Sixteen years of construction and development of Vietnam's securities market is a long process from the early simple stage to the current infrastructure and sophisticated market, with increasingly important contribution into the country's economic reform. Although the present status is still modest compared to the long-history of the world largest markets, the obvious achievements of Vietnam's securities market prove this has been the right direction for Vietnam's government to follow and develop a free market economy.

Notes

*1 Hochiminh Stock Trading Center changed its name to Hochiminh Stock Exchange in 2007.

*2 1 USD = 22,295 VND (exchange rate of VCB 29/7/2016).

*3 Summary Report on Vietnam's securities market in period 2011-2015 and the action plan for period 2016-2020 (SSC Vietnam – Jun. 2016)

*4 Report 2015 of Hochiminh Stock Exchange (Dec. 2015)

*5 Hanoi Stock Trading Center changed its name to Hanoi Stock Exchange in 2009.

*6 Report 2015 of Hanoi Stock Exchange (Dec. 2015)

*7 Report on 5-year establishment of the specialized trading platform for government bond market 2009-2014 (Hanoi Stock Exchange, 2014)

*8 Summary Report on Vietnam's securities market in period 2011-2015 and the action plan for period 2016-2020 (SSC Vietnam – Jun. 2016)

*9 2015 report on Vietnam bond market – Management Department on financial and banking institutions, Ministry of Finance

*10 Report on the corporate bond market of Vietnam in 2015 – Vietcombank Securities (VCBS) (Feb. 2016)

*11 Nguyen Thanh Long. DSc, "The important contribution of Vietnam's securities market into the economic restructure," *Investment & Securities Newspaper* (Aug. 2015)

*12 Nguyen Thanh Long, Dr of Science, SSC Vietnam, Research project "The restructure masterplan of Vietnam's securities market" (Dec. 2013)

*13 Summary Report on Vietnam's securities market in period 2011-2015 and the action plan for period 2016-2020 (SSC Vietnam – Jun. 2016)

*14 Research Project "Restructure Plan of Vietnam Securities Market", Nguyen Thanh Long, DSc. (2013) (p139)

*15 Research Project "Restructure Plan of Vietnam Securities Market," Nguyen Thanh Long, DSc. (2013) (p.138 and p.144)

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She received her Ph.D. in Economics Science from Warsaw School of Economics, Poland.

Introducing Nomura Foundation

Nomura Foundation is pleased to offer this new publication on capital markets in Asia, sharing the perspectives of scholars and practitioners from throughout the region.

Nomura Foundation is a public interest incorporated foundation formed in 2010 from the combined resources of three existing foundations established by Nomura Group, Japan's largest securities company. The foundation aims to contribute private sector resources to support a dynamic and sustainable economy and society in Japan and the world by promoting the social science disciplines, enhancing international understanding, and fostering the next generation of academic and artistic talent.

The foundation's programs focus on four areas: Social Sciences, Foreign Student Scholarships, Arts and Culture, and World Economy. The Social Sciences program provides grants for academic research in economics, law, politics, and other social sciences, particularly research involving international and interdisciplinary approaches. Our Foreign Student Scholarship Program provides two-year scholarships to foreign students working toward advanced degrees in the social sciences or humanities at leading Japanese universities.

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The World Economy program carries on the work of the former Tokyo Club Foundation for Global Studies in funding research, conferences, and publications on the global macro economy and capital market development.

Panel Discussion at the 2015 Forum

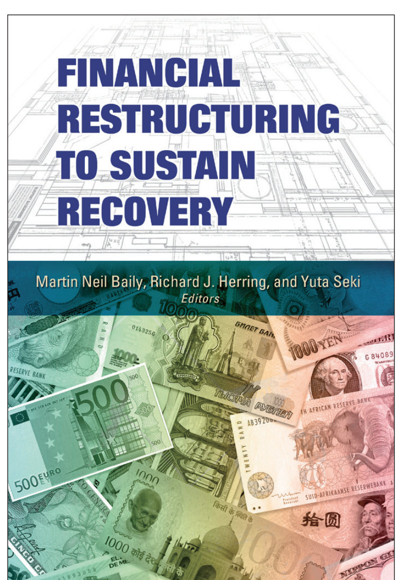
Lord Mervyn King at the 2015 Forum

Since 2010 the World Economy Program has organized ten conferences on the global macro economy in partnership with the Brookings Institution (US), Chatham House (UK), the Development Research Center of the State Council (China), Nomura Securities, Nomura Institute of Capital Markets Research, and other organizations. Issues addressed included "The Evolving Global Financial Order" and "Fiscal Policy in the Post-Crisis World." Together with the Development Research Center and Nomura Institute of Capital Markets the foundation has organized seven conferences bringing together experts from China and Japan to discuss capital market development in China and the lessons from Japan's experience. These conferences have covered such topics as "Capital Markets and Development through Innovation" and "Capital Market Development under the 'New Normal.'" (A complete list of conference titles and programs can be found on the foundation's website http://www.nomurafoundation.or.jp/en/.)

In order to inform the general public, the foundation's website archives most of the research papers and presentations prepared for its World Economy conferences. In addition, Nomura Foundation has provided financial backing for a number of print publications including several conference volumes published by the Brookings Institution, *Capital Markets in India* published by Sage, Inc., and the quarterly Japanese-language journal *Chinese Capital Markets Research.*

With the publication of *The Nomura Journal of Asian Capital Markets* the foundation continues its support of research on capital market development and extends its scope beyond China, India, and Japan to cover the emerging economies of Asia.

Cover of *Chinese Capital Markets Research*



Cover of *Financial Restructuring to Sustain Recovery*

Introducing Nomura Institute of Capital Markets Research

Cover of *Nomura Capital Markets Quarterly*

Established in April 2004 as a subsidiary of Nomura Holdings, Nomura Institute of Capital Markets Research (NICMR) builds on a tradition begun in 1965 of studying financial and capital markets as well as financial systems, structures, and trends. NICMR offers original research and policy proposals by specialists based upon its knowledge of actual business practices.

NICMR publishes some of its research output in Japanese in the magazine *Nomura Capital Markets Quarterly*, and it posts some items in Japanese, English and Chinese on its website.

In Japan, structural changes in the economy and society have rapidly progressed. Population aging is in progress and is having a major impact on economic and social systems. Japan faces a number of challenges, including the need to reform its social security, tax, and public finance systems. As a front-runner of aging society, Japan has to overcome these challenges to develop further.

As a mature economy, one of Japan's most valuable resources is its ¥1,600 trillion household financial assets. Whether this is used effectively will be critical to the country's future. We recognize that Japan must establish a market mechanism-driven money-flow in order for its economy to further progress. Our core mission is to contribute to financial system and securities market reforms in order to help establish such a market-structured financial system.

NICMR research encompasses not only Japanese issues, but also covers timely issues concerning international capital markets. In addition to research offices in New York, London and Beijing, NICMR established a research office in Singapore in 2015 to strengthen its Asian research platform.

The continuous growth of China and the other Asian countries is generating huge funding needs for their infrastructure and it means that this region requires not only indirect financing systems but also robust capital markets. There is an urgent need to promote development of Asian capital markets, which are a key for the future of Asian financial systems and their economies.

Since the global financial crisis, people have become increasingly aware of problems that spread beyond national boundaries. As financial regulators around the world cooperate more closely, there is a greater need for recognition of regional differences. The role of Asia from the perspective of rulemaking and global standards is also increasingly important.

Our mission includes generating financial and capital market-related policy recommendations for Asian countries based upon fundamental analysis and comparative studies of experiences in Japan and other developed countries. We believe that there are lessons to be learned from Japan's experience when it comes to issues such as the need to increase the availability of direct finance and the need to increase the availability of investment services to cater to the growing number of middle-income households.

We will continue to review such developments and strive to be even more timely in our studies and proposals. As a member of the Nomura Group, a global financial group based in Asia, we hope to continue to contribute to the development of financial markets in both Japan and the rest of Asia.

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