LIFTING-THE-BARRIERS REPORT FOR ASEAN CAPITAL MARKETS
Clarifying benefits, increasing transparency and fixing the easy things first to pave the way for better ASEAN Capital Market Integration
Research objectives:
The CIMB ASEAN Research Institute (CARI) in collaboration with the ASEAN Business Club (ABC) launched the Lifting- The-Barriers (LtB) Initiative in early 2013 as an integrated year long research platform involving core research as well as stakeholder engagement.

The objective was to adopt a vertical approach by means of identifying bottlenecks and barriers hindering free trade of prioritised sectors in the context of the ASEAN Economic Community (AEC).

The LtB Initiative targets six identified sectors which have pressing relevance to the business landscape in ASEAN and will play a major role in the successful formation of the AEC. The six sectors were Connectivity, Healthcare, Aviation, Capital Markets, Financial Services and Infrastructure, Power & Utilities.

Two leading ASEAN corporations were selected to champion each sector, providing the direction and experiential insight into their industry. The input from these champions, or chair organisations, were key to understanding the issues faced by industry stakeholders and to develop the recommendations as part of the discourse.

CARI’s Research Working Committee and its Strategic Advisors also worked closely with each of the six nominated Research Partners in producing these reports.

The Research Partners were either top management consulting firms and academic institutions who provided the technical knowledge and quantitative analysis required.

Phase I: LTB Preliminary Research
Phase I of the LtB Initiative involves core research and compilation of qualitative and quantitative responses as surveyed from within each of the six business sectors. The outcome of Phase I are the six sector-based Preliminary Papers, intended to provide a base to build discussions on in the next phase.

Phase II: Network ASEAN Forum (NAF) 2013
The NAF was designed to convene six sector based roundtables with the aim of identifying barriers. The NAF served as a platform for different stakeholders to deliberate on relevant issues and to collectively propose viable recommendations to remedy them. Participants of this discussion include regulators, private sector leaders, service providers, manufacturers, academics and many more. The selection of discussants aimed to provide a well rounded and reflective debate.

Phase III: Launch of the LtB Reports
The third and final phase of the LtB Initiative saw the consolidation of all research and discussion materials from Phase I and Phase II. Phase III involved the launch of the final LtB Reports, as a set of white papers presented to the relevant ASEAN policy makers.
**BACKGROUND**

**Research objective:**
To identify key barriers to integration of ASEAN’s capital markets and to provide recommendations on how to remove those barriers.

- **Capital markets** serve the role of channelling private savings towards private and public investment opportunities and thereby promoting economic growth.
- The capital markets in individual ASEAN countries have grown rapidly in recent years but **opportunity for further growth** remains in linking these smaller domestic capital markets on a regional level.
- Such a regional capital market would be **better able to link lower-cost financing opportunities to higher-returning investment needs**, increasing efficiency of financial intermediation and benefitting economic growth throughout the region.

**Scale of ASEAN capital markets**

**Equity Market Cap Local Currency**

<table>
<thead>
<tr>
<th>Country</th>
<th>2002</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>2,100</td>
<td>3,200</td>
</tr>
<tr>
<td>World</td>
<td>9,000</td>
<td>12,000</td>
</tr>
</tbody>
</table>

**Debt Outstanding**

<table>
<thead>
<tr>
<th>Country</th>
<th>2002</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>525</td>
<td>820</td>
</tr>
<tr>
<td>World</td>
<td>1,070</td>
<td>1,820</td>
</tr>
</tbody>
</table>

**Foreign Portfolio Investment**

<table>
<thead>
<tr>
<th>Country</th>
<th>2002</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>100</td>
<td>170</td>
</tr>
<tr>
<td>World</td>
<td>525</td>
<td>640</td>
</tr>
</tbody>
</table>

**Pension & Insurance Assets**

<table>
<thead>
<tr>
<th>Country</th>
<th>2002</th>
<th>2012</th>
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</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>100</td>
<td>170</td>
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<tr>
<td>World</td>
<td>525</td>
<td>640</td>
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</table>

**Research Partner:** Oliver Wyman

**Chair:** Nazir Razak, Group CEO, CIMB Group

**Co-Chair:** Cezar Consing, CEO, Bank of Philippine Islands

**Published by:** CIMB ASEAN Research Institute (CARI), August 2013

**Title of study:** Lifting-The-Barriers Report for ASEAN Capital Markets

Collectively, capital markets in ASEAN have grown at a rapid pace over the past decade. The **compound annual growth rate (CAGR)** of Malaysia, Indonesia, Singapore and Thailand is 5.6%, significantly higher than the world CAGR of 3.1%.

- The **product growth rate** in ASEAN is well over world average with 14.8%-21.9% average annual growth.
- **Equities:** Equities: The combined **market cap** of ASEAN exchanges reached US$2.3 trillion by the end of 2012, creating Asia-Pacific’s 5th largest equity pool.
- **Fixed income:** Local currency fixed income markets have also expanded rapidly and created the 4th largest market by issued amount outstanding in the Asia-Pacific.
- **OTC derivatives:** Except in Singapore, ASEAN onshore OTC derivative markets are still at a nascent stage.
- The participant growth rate was 14.2%-18.1% over the period with a significant expansion across issuers, intermediaries and investors.
- **Issuers:** The number of listed companies across ASEAN increased by 30%.
- **Intermediaries:** Pan-ASEAN banks have emerged with explicit strategies to link regional capital markets, forming a single point of access.
- **Investors:** ASEAN has emerged as a major wealth hub in the Asia-Pacific, which supports the emergence of regional institutional investors.

**The ASEAN Capital Markets Forum (ACMF) has united regional policy makers, market participants and stakeholders to develop a roadmap towards increased coordination across ASEAN capital markets by target dates in 2015 and 2020.**

**Integration will require significant adjustment to domestic currency, capital account and taxation policies** across individual ASEAN capital markets, as well as subject both local issuers and financial intermediaries to different market standards.

**Key metrics of ASEAN capital market growth**

- **Equity Market Cap Local Currency**

  - ASEAN: 18.1%
  - World: n/a

- **Debt Outstanding**

  - ASEAN: 14.2%
  - World: n/a

- **Foreign Portfolio Investment**

  - ASEAN: 18.1%
  - World: n/a

- **Pension & Insurance Assets**

  - ASEAN: 14.2%
  - World: n/a

**Sources:** IMF CPIS, National Economics, World Federation of Exchanges, Asiasbonds Initiative, CEIC, IMFs PFS, National Sources, Oliver Wyman research and analysis

1. Open interest, notional. 2. Annual average turnover, notional. Estimated from 2010 figures. *Limited data available, overall values assumed to be below Malaysia and Thailand.* Source: Exchanges, World Federation of Exchanges, Asiasbonds Initiative, Oliver Wyman Research and Analysis
BACKGROUND

Individual ASEAN capital markets fall into four tiers of development:

1. Financial Hub – Singapore
2. Established domestic markets – Malaysia and Thailand
3. Emerging domestic markets – Indonesia and Philippines
4. Nascent markets – Brunei, Cambodia, Laos, Myanmar and Vietnam

Policy support for ASEAN capital market development takes many forms:

- **Domestic sector promotion**: Local regulators support local capital market development through regulatory initiatives.
- **Institutional investor regulation**: Several ASEAN countries are enhancing their national healthcare and pension schemes, creating sizable domestic asset management institutions.
- **Cross-border harmonisation**: Under the guidelines of the ACMF, ASEAN capital markets are working towards increased harmonisation of rules related to issuance, supervision and licensing of market professionals.

**Status of Infrastructure**: ASEAN exchanges and clearing infrastructure institutions haven’t had the same level of consolidation as in Europe and the US, but leading national exchange groups are evolving to consolidate infrastructure domestically and upgrade operations.

- **Integration**: National policy makers are promoting the growth of “champion” exchanges to boost the profile of local capital markets, leading trading and clearing institutions to consolidate domestically.
- **Operations**: Exchanges in Malaysia, Singapore and Thailand recently invested in new trading and/or clearing systems, facilitating the growth of high-speed trading, Direct Market Access and new clearing approaches.
- **ASEAN Trading Link**: Integrating equities markets across Malaysia, Singapore and Thailand, the ASEAN Trading Link provides investors a single platform for trading ASEAN equities.
- **New infrastructure**: Singapore pioneered ASEAN’s first OTC CCP (AsiaClear), Cambodia and Laos launched national stock exchanges in 2011, and securities law legislation is currently underway in Brunei and Myanmar.

ASEAN nations are already addressing some of the key issues required to drive future capital markets growth, and key to this effort is the implementation roadmap outlined by the ASEAN Capital Markets Forum (ACMF).

The roadmap emphasises coordination on market access, linkages and liquidity. It is structured around three broad themes and six strategic components.

<table>
<thead>
<tr>
<th>Three broad themes and six strategic components of ACMF implementation</th>
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<tbody>
<tr>
<td><strong>THEMES</strong></td>
</tr>
<tr>
<td>Creating an enabling environment for regional integration</td>
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<tr>
<td>Creating the market infrastructure and regionally focused products and intermediaries</td>
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<tr>
<td>3. Promote new products to build ASEAN as an asset class</td>
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<tr>
<td>Strengthening the implementation process</td>
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<td>6. Reinforcing ASEAN working process</td>
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</table>
KEY FINDINGS

Successes and challenges of the ACMF roadmap

- Successes of the roadmap include:
  - the recently agreed frameworks on expedited review for secondary listings (March 2012) and cross-border securities offering standards (April 2013)
  - which significantly reduce the barriers for ASEAN listed companies in Malaysia, Singapore and Thailand. Issuer companies may now access the combined investor base of these three markets, reducing funding costs and increasing cross-border participation of ASEAN institutional investors.

- However, this partial implementation of the roadmap creates some challenges:
  - Cross-listed companies may still be subject to separate legal requirements and taxes, and may face challenges in repatriating raised capital.
  - Discrepancies in pricing between the multiple listings will create opportunities for arbitrage, which local intermediaries will not be able to seize as they still face restrictions in operating across other ASEAN markets. Arbitrage opportunities will thus be left for global and regional banks with branch presence in Malaysia, Singapore and Thailand to capture.

- The newly launched ASEAN Trading Link also faces challenges:
  - Retail participation needs to be boosted, and an agreement on clearing and settlement interoperability is needs to be established.

- These challenges should be resolved as these more advanced ASEAN members in capital markets (Malaysia, Singapore, Thailand) present a test case to the rest of the region. Any negative impact from partial or unbalanced implementation of the roadmap could negatively affect other members’ support for the project.

Opportunity for growth

- **OTC market development**
  - Although ASEAN fixed income markets have had significant progress, OTC market development remains limited.

- **Broadening investor base**
  - Retail participation in ASEAN markets is relatively low, which affects turnover activity and thus market liquidity. ASEAN Institutional investors are also limited in scale and conservative. Lacking these developments, ASEAN capital markets will remain exposed to a degree of volatility of foreign investment.

- **Enhancing liquidity**
  - ASEAN markets lag regional peers in measures of liquidity as can be seen in the chart below. Increasing retail participation will increase liquidity somewhat but a deeper analysis of domestic market policy is also necessary.

Equity and bond liquidity in Asian markets

(Trading volume over market capitalisation, 2012)

<table>
<thead>
<tr>
<th>Country</th>
<th>Equity Average¹</th>
<th>Bond Average¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>36%</td>
<td>38%</td>
</tr>
<tr>
<td>Asia</td>
<td>87%</td>
<td>74%</td>
</tr>
</tbody>
</table>

¹ Weighted by market cap. 2. Corporate Bonds only. * Data not available

Source: World Federation of Exchanges, Asiabonds, CBIC, Oliver Wyman research and analysis

- **Furthering integration**
  - Intra-ASEAN investment remains small - less than 5% of cross-border investment (excluding Singapore given its role as a financial hub).
  - Over 40% of the small amount of intra-ASEAN cross-border investment is between Indonesia and Malaysia, likely more due to linguistic and cultural links rather than true integration.
  - ASEAN policymaker need to explore the questions on harmonisation of withholding taxes, exchange and clearing infrastructure, and broker consolidation.
KEY FINDINGS

Projected growth of ASEAN capital markets

<table>
<thead>
<tr>
<th>ASEAN Capital Markets activity (Trading volume)</th>
<th>USD TN, Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>Scenario 1: GDP-Driven</td>
</tr>
<tr>
<td>Bonds</td>
<td>Scenario 2: Liquidity uplift</td>
</tr>
</tbody>
</table>

- CAGR: 7.6%
- 4.3%
- 5.8%
- 4.4%
- 4.7%
- 3.5%

Key drivers of growth
1. Reduced transaction costs through harmonised regulatory/tax framework
2. Increased efficiency as exchanges/brokers streamline operations
3. Interest rate stability and sovereign benchmarks supporting bond issuance
4. Sophistication of current institutional investors
5. Entry of “sophisticated” institutional investors;
6. Increased retail investor participation in Indonesia, Philippines, CLMV

Barriers raised at the Network ASEAN Forum
- At the Network ASEAN Forum, financial services and legal professionals active in ASEAN capital markets yielded a broad consensus on the development of ASEAN capital markets:
  - Concern with the rate of progress towards further integration, especially when compared to the objectives outlined in the ACMF roadmap
  - Lack of transparency on how substantial technical barriers, such as complex and unaligned taxation regimes, can be resolved
  - Some market participants even raised concern that the end goal of the roadmap may not be credible in the proposed timeframe
  - Support by political figures needed in ASEAN Members State to resolve the barriers that face capital market integration
- However, there are a few near-term “quick-fixes” which could be achieved and would go a long way towards maintaining credibility and support for the integration process while building momentum for further reforms.

Quick-fixes to drive tangible progress on the ACMF roadmap

1. Clarify the benefits
   - Policy makers should establish and publicise a clear and quantitative evaluation of the potential economic benefits of capital market integration.

2. Increase transparency
   - Policy makers need to present an honest assessment of the challenges limiting further integration.

3. Fix the easy things first
   - Policy makers should seek to reach a rapid consensus on a few relative quick-fixes which would help maintain support for reforms.

DISCLAIMER: The interpretation of the findings of selected academic papers are extracted from journals and sources in the public domain. As such, CIMB ASEAN Research Institute (CARI) does not make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and opinion contained in this report. Should any information be doubtful, readers are advised to make their own independent evaluation of such information.
### Key Findings

#### 1. Clarify the benefits
- ASEAN capital market integration is widely expected to **yield broad benefits** to member economies, including:
  - **Increased attractiveness** of ASEAN as an investment destination.
  - **Reduced cost of capital** for local companies.
  - **Increased fluidity of capital with ASEAN**, increasing access to economic opportunities across the region for investors and enterprises.
- Although ASEAN will undoubtedly benefit from capital market integration, the **benefits will accrue unevenly** to individual market segments.
- ASEAN policy makers should therefore cooperate with academic researchers and market participants to **develop a more tangible assessment of the benefits of capital market integration** across economic sectors.
- With this information, policies can be prioritised to focus regulatory efforts on those reforms where the benefit/challenge trade-off is the most optimal.

#### 2. Increase transparency
- Market participants require a **clear vision and expected deadlines** in order to manage their own business plans.
  - The existence of an “official” target and “anticipated” timelines perceived by individual market participants **undermines credibility** and **creates an uneven playing field** as information is asymmetric.
- Policy makers must be increasingly transparent about the challenges that the integration process faces.

#### 3. Fix the easy things first
- ASEAN policy makers should **focus on the following “quick-fixes”** which appear by market participants to be relatively uncontroversial and which would **reinforce confidence** in the integration process, **generate tangible benefits** for market participants, and **maintain momentum** in driving further progress on more challenging issues:
  - Further simplify the cross-listing process by permitting **English-language document submission** across all ASEAN markets, and by converging on a **uniform response time** to submissions and requests.
  - **Simplify tax collection** for investors across multiple geographies through a **single payment point**.
  - **Increasing coordination in investor education**, as many retail investors across ASEAN are not too familiar with regional companies.

### Summary of recommendations

<table>
<thead>
<tr>
<th>Technical Barriers</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substantial technical barriers, such as complex and unaligned taxation regimes remain unresolved.</td>
<td>Transparency on who these barriers may eventually be resolved is needed.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OTC Market Development</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>OTC market development remains limited despite growth in fixed income markets.</td>
<td>Support interest investors to grow “organic” hedging demand for OTC and support the establishment of Over-The-Counter Central Counter-Party clearing services.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investor Base</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail participation lags Asian peers, which negatively affects turnover activity and market liquidity.</td>
<td>ASEAN markets need to concentrate on building the domestic institutional investor class.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liquidity</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN is lacking in measures of liquidity, which negatively affects trading activity.</td>
<td>Increasing retail participation will help address this issue but a deeper analysis of domestic market policy is necessary.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Furthering Integration</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intra-ASEAN investment remains small, despite efforts to promote ASEAN as an investment class.</td>
<td>ASEAN policy makers need to confront the tough questions on harmonisation of withholding taxes, exchange and clearing infrastructure, and broker consolidation. Retail investor education to increase awareness of ASEAN companies would also help.</td>
</tr>
</tbody>
</table>
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