

Network ASEAN Forum 2013

CAPITAL MARKETS

22nd- 23rd August, 2013

CONFIDENTIALITY

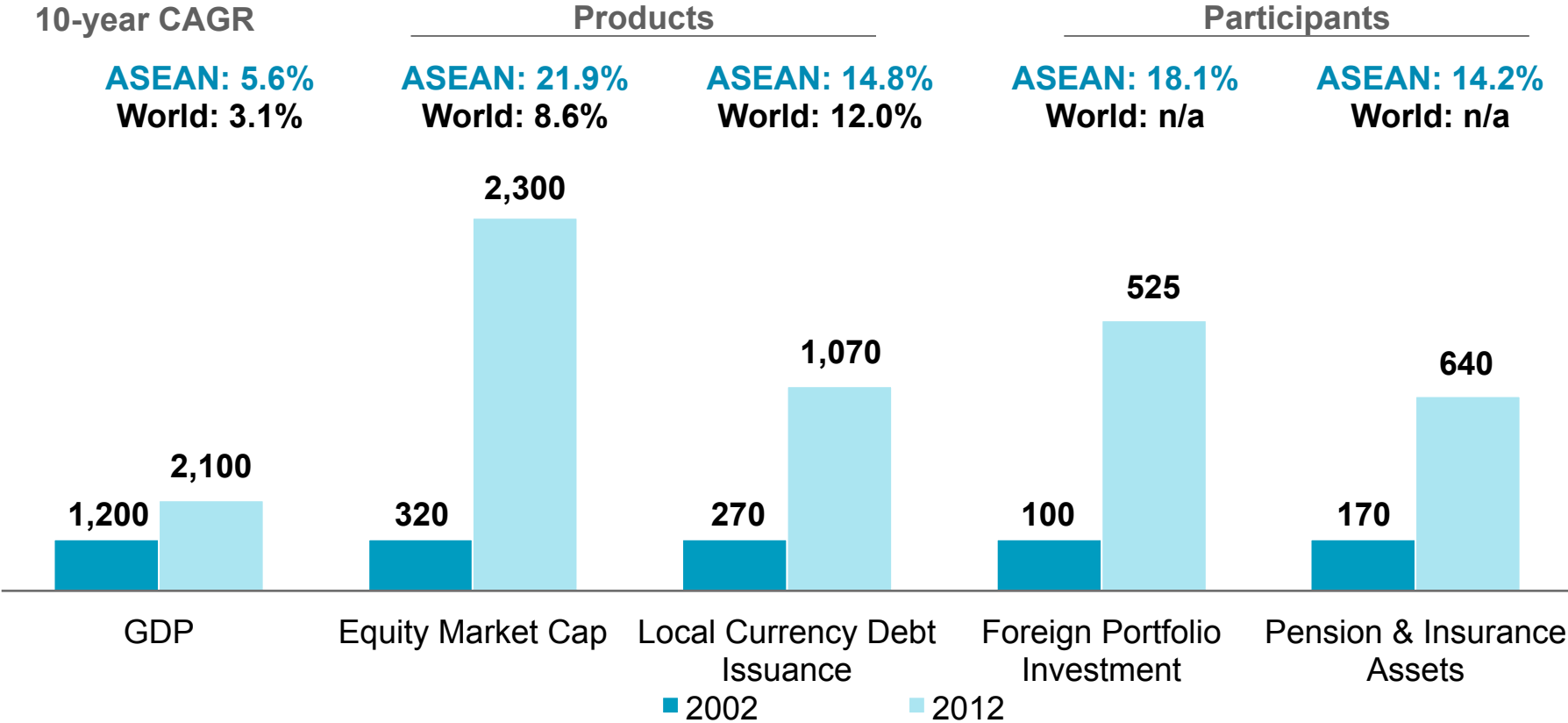
Our clients' industries are extremely competitive. The confidentiality of companies' plans and data is obviously critical. Oliver Wyman will protect the confidentiality of all such client information.

Similarly, management consulting is a competitive business. We view our approaches and insights as proprietary and therefore look to our clients to protect Oliver Wyman's interests in our presentations, methodologies and analytical techniques. Under no circumstances should this material be shared with any third party without the written consent of Oliver Wyman.

Copyright © Oliver Wyman

The ASEAN capital market has shown tremendous growth over the past decade...

Key Metrics of ASEAN Capital Market Growth 2002 vs. 2012; USD BNs



1. Inclusive of Indonesia, Thailand, Singapore and Malaysia
Source: Oxford Economics, World Federation of Exchanges, Asiabonds Initiative, CEIC, IMF CPIS, National Sources, Oliver Wyman research and analysis

Key domestic initiatives

- 1 • Local capital markets “Master Plans” in Indonesia, Malaysia and Thailand
 - Identifies current challenges in products, liquidity, risk management, etc. and allocates resources to resolving
- 2 • Further development of domestic buy-side institutions
 - Reform of Indonesian Pensions System (SJSN)
 - Reform of health insurance in Thailand, Indonesia
- 3 • Strengthening of domestic market infrastructure
 - Exchange consolidation in Indonesia, Vietnam
 - Expansion of exchanges in CLMV
 - Setup of OTC Derivatives CCP in Singapore
- 4 • Achievement of investment-grade status in major AESEAN economics
 - All of “ASEAN 6” currently investment grade sovereign issuers

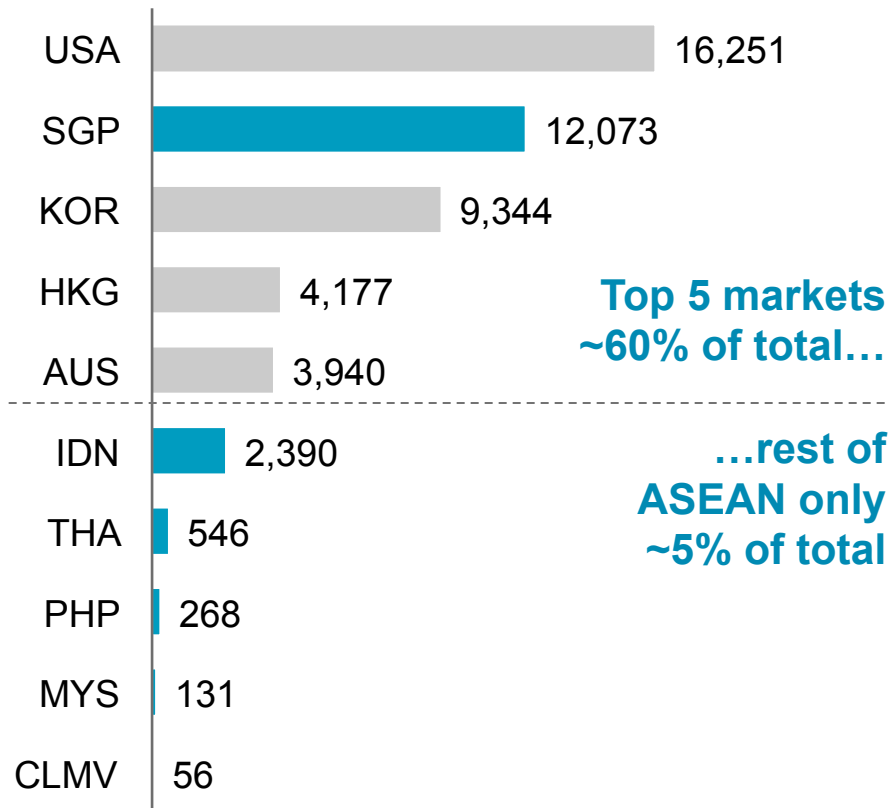


Impact

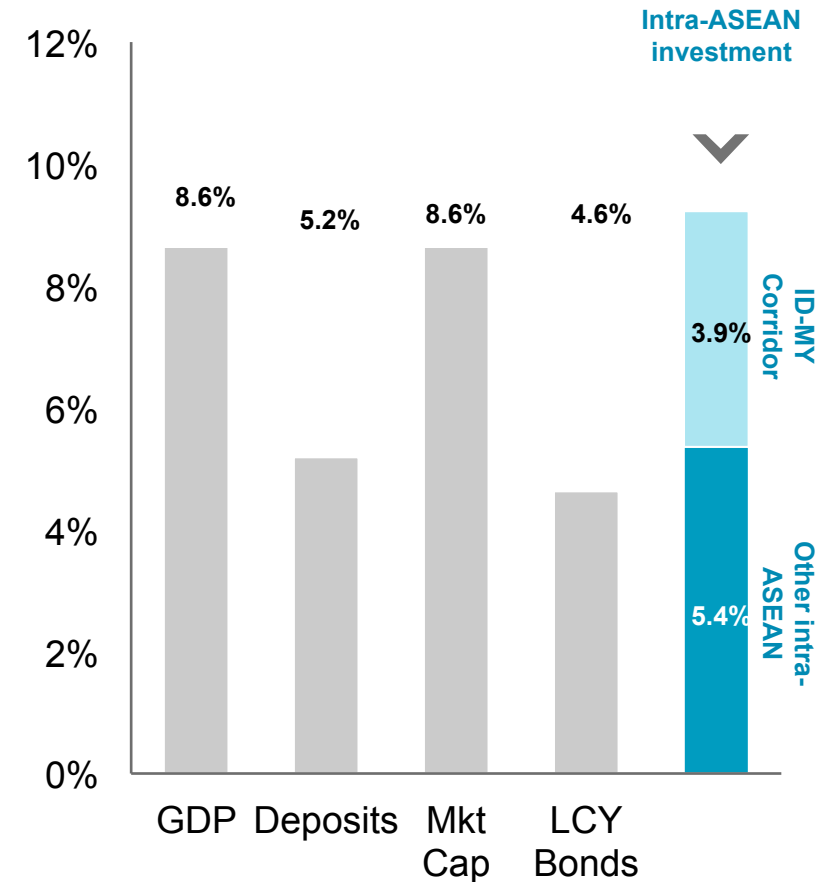
- Established consensus for emphasizing capital markets development across sector
- Benchmarking gaps vs. peer markets
- Broadens institutional investor base to provide “baseline” trading volume
- Reduces volatility and improves liquidity in the long run
- Ensures infrastructure can keep up with growth and diversification in products, issuer and investor needs
- Consolidates resources
- Vastly increases attractiveness of local currency product
- Opens access to broad range of potential foreign investors

Looking forward, significant underlying room for growth still remains – particularly in facilitating intra-ASEAN investment

ASEAN Portfolio Investment (ex. SG)
2011 (Latest Available), USD MM



ASEAN (ex. SG) as share of APAC Region
2012, By Category



Source: Oxford Economics, World Federation of Exchanges, Asiabonds Initiative, CEIC, IMF CPIS, National Sources, Oliver Wyman research and analysis

Local markets are actively taking the next steps to support development

- 1 Regulatory**
 - Pursuit of next phase of local Capital Markets Development plans
 - Increasing recognition of importance of capital markets in Economic plans

- 2 Infrastructure**
 - Increasing coordination between ASEAN exchanges; potential post-trade linkage to be explored
 - Further investment in fixed income exchanges, retail-focused products
 - Cross-border coordination mechanisms (e.g. Malaysia-HK bond settlement)

- 3 Investors**
 - Emergence of institutional investors of scale in Indonesia, Philippines, Vietnam as markets continue with planned / discussed reforms
 - Reforms in investor protection to further encourage retail investor activity

- 4 Intermediaries**
 - Emergence of true ASEAN Capital Markets “Champions (e.g. CIMB, DBS, Maybank / Kim Eng, OCBC)
 - Domestic reforms to promote the competitiveness of local brokers

- 5 Products**
 - Continued growth / promotion of local currency products
 - Increased cross-listings and DR programs in place
 - Initial discussions regarding OTC market development policy

Simultaneously, ASEAN member countries have been working closely to achieve increased integration under the AEC 2015 Framework

Key initiatives under the AEC 2015 framework

1

- **Roadmap for Monetary and Financial Integration of ASEAN (RIA-Fin)**
 - Capital Market Development: Coordination on market access, linkages and liquidity
 - Capital Account (CA) Liberalization: Self-assessment to identify gaps to full liberalization
 - Financial Services Liberalization: 5 rounds of negotiations complete on opening sector; rounds of discussion to continue in 2016

2

- **ASEAN Capital Markets Forum (ACMF) Implementation Plan**
 - Focus on full harmonization of domestic laws, regulations and operations to facilitate access
 - Enable conditions for broad harmonization, supported by mutual recognition

3

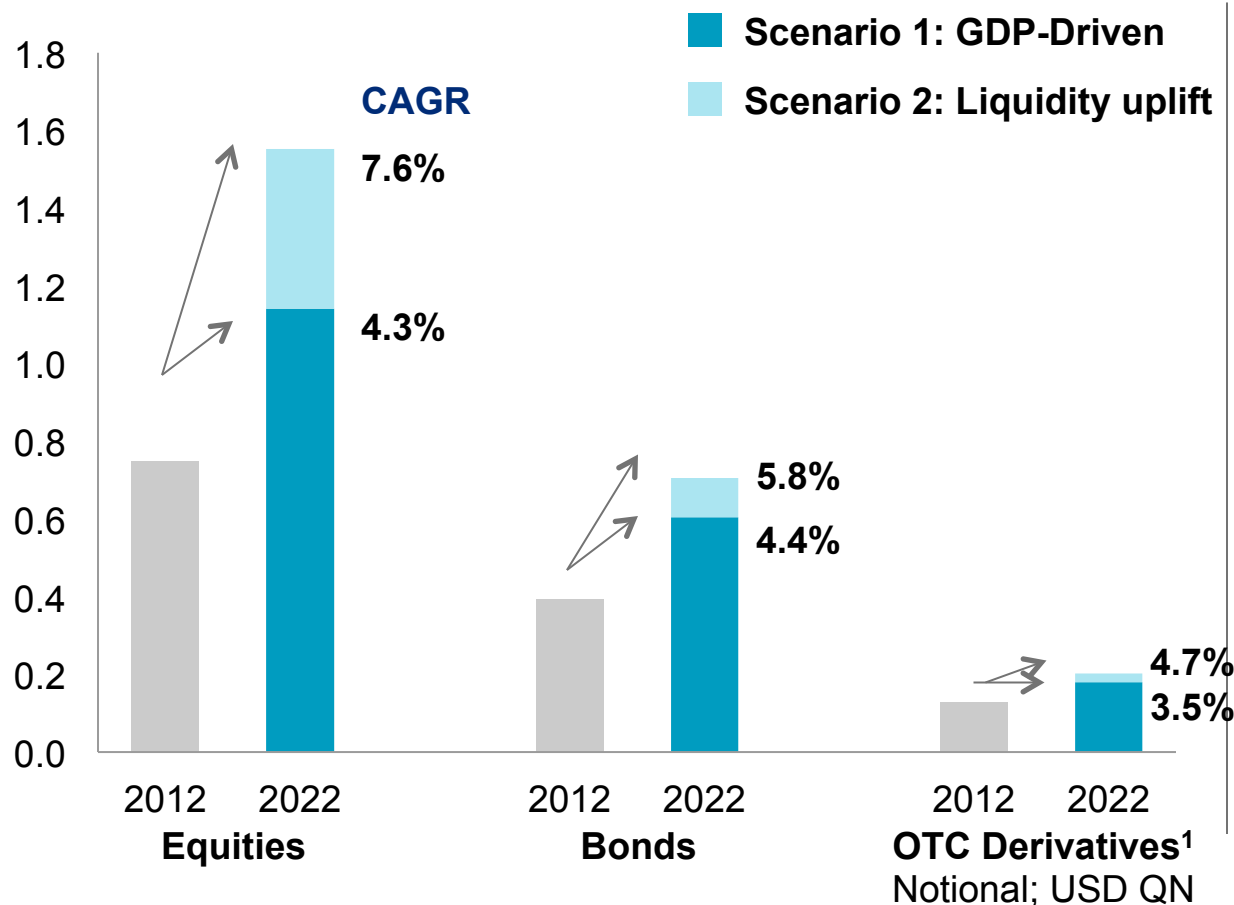
- **Cooperation with APG on Anti-money laundering efforts**
 - Coordinated training and capacity building to counter financing for terrorism and money laundering, with Asia-Pacific Group

Objectives

- ***Free flow of investment***
- ***Free flow of capital***
- ***Free flow of talent***

Supported by these and further initiatives, capital markets activity in ASEAN could grow to USD 1.7-2.3 TN in traded securities by 2022

ASEAN Capital Markets activity (Trading volume) USD TN, Annual



Key drivers of growth

- 1 Reduced transaction costs through harmonized 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 e.g. insurer ALM mgmt.
- 5 Entry of "sophisticated" institutional investors; e.g. hedge funds, SWFs,
- 6 Increased retail investor participation in Indonesia, Philippines, CLMV

¹ Projection does not consider potential effects of Basel III on overall OTC industry in ASEAN
Source: BIS, World Federation of Exchanges, Asiabonds Initiative, Oxford Economics, Oliver Wyman Analysis

To realize this potential, ASEAN policymakers and market participants need to converge on a unified vision for the region's capital markets

Two key questions to address:

1

How do we develop and enlarge a stable pan-ASEAN investor base?

2

What work remains in order to achieve a more harmonized, integrated ASEAN capital market?

#1: How do we develop and enlarge a stable ASEAN investor base?

Key considerations:

- **ASEAN nations have already pursued multiple initiatives to strengthen the regional investor base (e.g. the ASEAN Trading Link, cross-listings, mutual recognition)**
 - For what segments of the market (e.g. domestic vs. foreign, retail vs. institutional, specific markets) have these measures been most effective? Have they had any negative impacts?
 - What technical / practical barriers exist to extending these initiatives further across ASEAN?
- **What measures should ASEAN nations take individually to strengthen investor bases?**
 - Can we improve transparency / reporting to better pinpoint gaps?
 - How can nations individually strengthen the role of domestic institutional investors?
 - Should domestic institutions (e.g. SWFs, Pension Funds) play a role in stabilizing markets?
 - What 2nd-order impacts are created (e.g. more risk across insurance sector)
- **What measures can ASEAN nations take collectively to strengthen investor bases?**
 - Benefit of post-trade linkage on intra-region trading / clearing activity?
 - ASEAN investor “Passport” (e.g. UCITS-type implementation for ASEAN?)
 - Should there be a regional “stability fund” to help manage short-term volatility across ASEAN markets? How would this operate

#2: What work remains in order to achieve a more harmonized, integrated ASEAN capital market?

Key considerations:

- **How do we view the current progress along the AEC 2015 initiatives?**
 - How effective have policymakers been at clearly articulating challenges / conflicts?
 - What steps have been taken to address concerns of national interest (particularly concerning obvious disparities in capital markets development between ASEAN nations)?
 - Do we still believe the original AEC 2015 goals are realistically achievable?
- **What would a “realistic” integrated ASEAN capital market look like, structurally?**
 - Where would capital likely flow, initially? What infrastructure would mediate this?
 - Which parties would benefit the most directly, and on what scale?
 - What are the “red lines” which major nations are unlikely to cross (e.g. full opening of capital account within ASEAN)?
- **What practical steps can we take to reduce the current barriers in the next 18 months?**
 - Which barriers yield the greatest impact for the cost? What can the private sector lead, vs. the public sector?
 - In case certain parties (e.g. sectors, nations) are expected to face disproportionate impact, can we coordinate to support them?
 - What monitoring and enforcement mechanism do we need to see through these efforts?

QUALIFICATIONS, ASSUMPTIONS AND LIMITING CONDITIONS

This report is for the exclusive use of the Oliver Wyman client named herein. This report is not intended for general circulation or publication, nor is it to be reproduced, quoted or distributed for any purpose without the prior written permission of Oliver Wyman. There are no third party beneficiaries with respect to this report, and Oliver Wyman does not accept any liability to any third party.

Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been independently verified, unless otherwise expressly indicated. Public information and industry and statistical data are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information. The findings contained in this report may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. Oliver Wyman accepts no responsibility for actual results or future events.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report. No obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof.

All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client. This report does not represent investment advice nor does it provide an opinion regarding the fairness of any transaction to any and all parties.

network
asean
forum | 2013

THANK YOU

