

Executive Summary

The capital market is important to a country's economic and social system. It plays the crucial roles of capital raising for both public and private sectors, promoting balance and stability in the financial system, decreasing dependency on the banking sector, driving the economy forward and creating jobs, as well as being an alternative method for savings. A strong capital market will lessen the impact of economic fluctuations which can be compounded by the fast-flowing nature of capital.

However, there are still many issues besetting the Thai capital market: few institutional investors, small retail investor base, limited financial products, high transaction costs, and lack of efficient regulatory enforcement are some examples. Moreover, Thailand's capital markets in recent times have grown at a very slow pace. The size of the stock market compared to GDP is only 51% (as of June 2009) which is smaller than other countries in the region such as Hong Kong (845%), Singapore (202%), Malaysia (104%) and South Korea (66%). Should this trend continue, Thailand's capital market will stagnate and become increasingly marginalized. Various studies have shown that inadequate development of the capital markets will impact its ability to raise, channel and monitor resources efficiently. In the end, this will lead to loss of growth opportunities, standard of living and prosperity.

In recognizing the importance of the capital market, Prime Minister Abhisit Vejjajiva has appointed the Capital Market Development Committee (The Committee) on January 27, 2009. This appointment is a continuation from the last but one government which has appointed the first Committee on March 25, 2008. The Committee is tasked with formulating an overall masterplan for the development of Thai capital market as well as monitoring the implementation of such plan. The Committee comprises of the Minister of Finance as the chairperson and experts from public and private sectors.

In formulating the Capital Market Development Masterplan (The Masterplan), the Committee has solicited inputs and opinions from all stakeholders and has formed the vision and the 5-year development objectives (2009-2013) as follow:

"The Thai capital market is the primary mechanism for aggregating, channeling, and monitoring economic resources. The goal of the capital market is to perform these tasks efficiently to increase overall competitiveness of Thailand"

The Committee has formulated 6 primary missions and objectives to realize this vision:

1. Capital market must be easily accessible by investors seeking investment opportunities and corporations seeking funds
2. Increase quality and variety of products and services
3. Reduce cost of funds to issuers and any intermediary and transaction costs to investors to enable Thai companies to become more competitive
4. Develop efficient infrastructure framework in legal, regulations, accounting, tax, information, technology and enforcement
5. Educate investors and ensure that adequate protection mechanism are in place
6. Promote competition in the Thai capital market and build links with the global market system

The Masterplan consists of 8 important reform measures that will affect the course of development and bring about major changes in the system.

Measure 1: Abolish the Monopoly and Improve Competitiveness of the Stock Exchange of Thailand (SET). Liberalization of capital flows and competitive pressure increase the chances of the SET being marginalized. To make the SET responsive to fast-changing business environments, its business structure must be transformed to increase efficiency and promote competitiveness. First step is to demutualize the SET, convert it into a public company (The Exchange Company), separate the exchange business from capital market development work, and establish a Capital Market Development Fund (CMDf) with the mission of long-term capital market development. The SET's monopoly on exchange businesses will also end. Therefore, there may be other trading platforms permitted to trade listed stocks. The Exchange Company will be allowed to permit persons other than securities firms incorporated in Thailand to have direct access if it wishes to in order to increase liquidity and expand investment base to promote linkage with global capital market, and decrease limitations which currently obstruct the growth of Thai capital market.

Measure 2: Liberalization of securities business to promote market efficiency. This measure, while in line with recent trends of liberalization in the financial system, also aims to increase competitiveness of Thai capital market and enable it to withstand impact of fast capital flow. Liberalization of licenses will foster the market competition. Securities firms will have to adjust by forming alliances with strategic partners to increase its efficiency by offering new products and

services. Deregulation of commissions will reduce transaction cost and increase market activities in the long run.

Measure 3: Reforming Legal Framework. Currently, there are draft laws relating to the capital market, being proposed to the House of Representatives which are: (1) Amendment Act to Royal Enactment on Special Purpose Juristic Persons for Securitisation B.E..... (2) The Draft of Commercial Collateral Act B.E and (3) Amendment Act to the Civil and Commercial Code B.E..... The government should keep pushing for passage of these laws. The Committee also had the resolution to propose further reforms, including (1) Laws to facilitate mergers and acquisitions activities, (2) Adopt civil penalty and (3) Amend the Civil Procedure Code to include class action lawsuits, which would help make enforcement of the Securities and Exchange Act more efficient.

Measure 4: Streamline Tax System. This measure aims to make the tax system more efficient to transactions, improve fairness, and provide tax incentives for transactions that the state would like to promote for the development of capital market. Taxation areas to streamline include those related to mergers and acquisitions, investments in debentures, elimination of double taxation on dividends, equalize tax incentives on direct investment and investment through intermediaries, transfer of investments in provident funds, public savings funds, life insurance premiums, Islamic bonds, securities borrowing and lending of the Bank of Thailand, and venture capital.

Measure 5: Develop Financial Products. Currently, the Thai capital market has few financial products to choose from, which cannot take care of diverse needs of investors thus making the market relatively unattractive. This measure aims to push for development of new products which would help increase the variety of instruments and consequently help develop the market. Example of new products are Infrastructure Fund to promote investments by the private sector, life annuities, interest rate derivatives, inflation-indexed government bonds, Islamic bond, venture capital, and divestiture of ministry of finance's shares of publicly traded companies.

Measure 6: Establishment of a National Savings Fund. The Ministry of Finance had proposed a National Savings Fund Act, and the cabinet in a meeting on October 20, 2009 has agreed to the first draft. The National Savings Fund will cover workers outside the formal system comprising approximately 70% to total labor force in Thailand. The objective is to institutionalize savings for retirement, create equality of opportunity, and ensure that these informal sector workers are provided with some income after retirement. The National Savings Fund will become a major source of savings and investments in Thailand and will contribute to the development of Thai capital

markets. It will help lessen the volatility of capital movements and also indirectly promote new financial products as well.

Measure 7: Developing a Culture of Savings and Investments. This measure aims to provide choices when investing in provident fund and Government Pension Fund, so that investors' needs are met. It will also encourage investors to be proactive about acquiring new knowledge on financial products, so that investors can truly determine what types of products suit them.

Measure 8: Development of Domestic Bond Market. This measure aims to develop the government's cash management methods and study alternatives of amending laws relating to treasury reserves, so that the government can issue treasury bills efficiently. The government should also be able to manage treasury reserves for yield by such means as depositing the reserves with other institutions instead of the Bank of Thailand. This will help decrease the cost of funds that the government faces. Moreover, the Bank of Thailand will take the lead in developing and promoting the private repo and securities borrowing and lending markets, providing the bond market with another tool to manage liquidity efficiently with low risks. Overall, this would lead to further growth in the market.

Aside from the 8 reform measures, the Masterplan consists of 34 further measures that should be implemented. These measures are important in changing the basic framework and developing new infrastructures in the long run, which would lead to the fulfillment of the Masterplan's main objectives.

After the Masterplan has been approved, the drafting subcommittee will transform into the Implementation and Oversight Committee and charged with overseeing, monitoring, and assessing the implementation of the Masterplan. The new committee will use KPIs to assess progress and efficiency of the implementation.

The Committee believes that success in implementing the Masterplan, aside from directly benefiting the capital market, will have far-ranging benefits to society and economy as a whole. It will improve competitiveness, promote savings and retirement planning, improve linkage between Thai and global capital markets, and benefit all sectors of society. The results will be reflected and noticeable in the capital market structure itself. Thai capital market will grow larger with more liquidity which will strengthen balance and stability of the financial market. It will become a key driver in economic development, which will be observable in the prosperity of Thai people in the long run.