



'Thai capital market – the past, present and future'

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Good afternoon distinguished guests, ladies and gentlemen, it is my pleasure to share with you some of my experiences regarding the capital market development in Thailand. Given this opportunity, I would like to take you back in time to see the pattern of our capital market development, then to show you some of the changes that are taking place in our capital market, and its way forward.

As you know, the capital market plays an important part in the economy in fund raising, and allocating the limited resources to achieve the optimum use. The development of the capital market is considered to be an important policy that should get full attention from every government since it is vital to the potential growth of the whole nation.

If we carefully study the development of the Thai capital market by looking at its past, present and what we think will happen in the future, it would allow us to have better understanding of the existing problems and assist us in planning for the future directions. This will enable us to develop our capital market so that it could be the crucial driving force in the economic system that will lead to the creation of "Wealth" and "Welfare" for the Thai people. In addition, it will enhance our competitiveness and efficiently link ourselves with the rest of the global capital market.

Thai capital market in the past

Environment:

In the past, the movements of resources and capital between countries were rarely seen. Hedge Funds, for instance, were not widely known. Similarly, competitions among capital markets were not as intense as they are today, thus capital market only assumed the main role as a place for domestic companies to raise capital and for domestic people to invest.

Commercial banks have been widely known as main source of funds in the Thai financial market, in contrast, the Thai capital market is not recognized as main source of capital for the Thai economy. Nevertheless, it was not until the financial crisis in 1997 that prompted us the urgent need of the reliable source of funds other than commercial banks. The too much reliance on commercial banks posted a very high risk when commercial banks system encountered problems. Therefore, it is necessary for Thailand

to develop the financial system which allows the economy to be able to balance its dependency on the banking sector versus the capital market - for its growth.

The developments in the past:

The development of the Thai capital market at that time was primarily focused on how to make the market grow in order to alleviate the imbalance caused by too much dependency on the banking sector. At the same time, there were many works to be done on building a strong foundation for the growth of the capital market especially on the regulatory infrastructure such as standards, rules and regulations, etc. The objective of these works was to maintain orderliness and ensure integrity and investor protection in the market as well as gain recognition and confidence from investors.

However, knowledge and understanding in the areas of capital market and investment were at the minimum level among domestic investors. The investors did not realize the rights and duties they possessed as shareholders of a listed company, therefore the protection mechanism which was provided in the regulatory framework was not effectively used. Apart from that, there was a lack of compliance culture and good corporate governance among the business community and the industry, namely the market professionals in securities business and the management and major shareholders of listed companies. As such, we could not rely much on them in ensuring market integrity. The regulation framework was therefore very stringent and over regulated with the tendency towards the "Merit based" approach to compensate the lack of efficient investor protection mechanism.

Thai capital market at present

Environment:

The globalization of the financial markets has increased the cross-border trading. The global portfolio investment flow has 4-fold increased from 2002 to 2006. Hedge funds, have become a powerful force in global capital market with their active trading behavior, and their strategy which involves seeking highest return at the lowest cost. These funds usually have high volume per transaction and demand speedy execution and accuracy. International capital markets, therefore, compete extensively to attract liquidity from these hedge funds. Those who fail to do so are at risk of being marginalized.

Talking about the Thai capital market, I am happy to say that our market has made considerable progress and is now becoming an efficient source for fund raisings, both for primary and secondary offerings. The size of the capital market has outnumbered the size of the loan market offered by commercial banks by 1.7 times at the end of December 2007.

Developments

The global trend of market integration and liberalization has prompted the Thai capital market to open up and to find way to become a part of the international network in order to be able to enjoy the growth of the global economy. The policy for market development is therefore emphasizing on increasing competitiveness of the Thai market so that it can grow. However, the financial literacy of most retail investors which is crucial to enhancing investor power, is still limited. We still need stringent regulations to ensure market integrity and investors protection while finding ways to increase competitiveness of the capital market. The SEC believes that liberalization to allow more competition will increase the efficiency of the industry, therefore in late 2006, SEC announced a clear 5 years timeframe for market liberalization. The plan aims to liberalize securities licensing regime to allow new securities business licenses to be granted to newcomers who are "fit and proper" and also liberalize the brokerage commission fee to be fully negotiable between brokers and investors, both of which will be fully implemented by January of 2012. The SEC

believes that by giving a clear timeframe all local stakeholders would have sufficient time to adjust and get themselves ready for more liberalized market environment and more competition.

With the objectives of ensuring market integrity and facilitating market growth, the SEC has placed great emphasis on raising corporate governance standards which is very important especially to the international investors. The new Securities and Exchange Act (SEA) which has come into force early this year has incorporated many CG related measures to enhance investors' rights and provide self-protected mechanisms for investors. In additions, the new law has also upgraded several provisions of the SEA to match with the international standards, for instance protection of minor shareholders' rights, the protection of investor's assets, and clearing and settlement system. The SEC also proposed laws that are important to the development of the capital market such as "Trust Act", class action lawsuit which will enhance the effectiveness of enforcement, etc.. In addition, there has been improvement of the professional standards in the Thai capital market by making adjustments to the local accounting standards to harmonise with international standards. This will help increase the reliability of financial statements and support the mobilization of capital and regional investments.

Thai capital market in the future

Environment:

An intense competition in the global capital market and the outstanding growth being observed in China and India have caused smaller markets to realize the urge to integrate in order to combine forces to compete with bigger markets. ASEAN countries have agreed last year by endorsing the ASEAN Economic Community blueprint to facilitate free flow of goods, services, skilled labor and freer flow of capital to achieve the objective of markets integration by the year 2015.

The other role of the Thai capital market will be to provide investment opportunity for investors who seek higher return than bank deposits which is necessary for those who wish to save for their retirement. This role will be much more important in the future because Thailand is moving toward the "Aging society". The abolition of deposit insurance will have an impact to depositors because the risks of their savings will increase so there will be increasing demand for investment that yields higher return with the same degree of risk.

Future Developments:

The development of the Thai capital market in the future must take into account the future trends of factors surrounding the market that were mentioned earlier. We will stimulate domestic market by promoting competition so that the domestic market would be strengthened. As mentioned above that we have made a move toward the liberalization of securities business licensing and brokerage fees, there should be further liberalization in the Thai capital market. The monopolistic power that has been existing in the market should be abolished including the monopoly in the exchange and clearing businesses. As you may know, the Stock Exchange of Thailand will be demutualized so there will be changes in its governance structure which would lead to the openness of access to external pools of liquidity to enhance its cost-effectiveness. In addition, the liberalization of foreign branches or cross-border service of some securities business may be considered so that there will be full range of financial services provided to investors in Thailand. The establishment of Group of Experts by the ASEAN Capital Markets Forum which comprises ASEAN securities regulators will also provide the region with the implementation plan for the liberalization roadmap that will support the ASEAN Economic Community's objective of ASEAN markets integration.

Moreover, measures below are to support the regional linkage:

1. The stock exchange should be able to open trading access for those who are not its existing members and there should be a clear policy that supports foreign listing and cross-border investments.
2. Market and regulatory standards must be harmonized within the region and with international standards. This can be done by mutual recognition or harmonization of rules and regulations.

On the regulatory side, the strategic policy in order to facilitate market growth must get its full attention from the SEC. Until recently, we have been stressing too much on our mission of ensuring orderly market and investor protection at the expense of SEC's mission on facilitating market growth. Hence, we should try to foster business innovation in order to facilitate market growth and provide an alternative investments for investors through a regulatory reform . This can be done by minimizing the redundancy of rules and practices that has made the Thai capital market over-regulated, and moving toward disclosure based regulations rather than merit based approach – so that regulators will avoid making judgment on behalf of the investors as to what could be invested and what not. It is hoped that the regulatory costs for the private sectors will be minimized so that they can be more competitive, and there will be increasing flexibility for business operators so that they can come up with new products and new services that match with the needs of varieties of investors.

Nonetheless, in trying to limit the use of regulations to facilitate the market growth, we have to carry on the mission to preserve market integrity which is the main factor that contributes to the confidence in the capital market. Therefore, it is important to strengthen the industry regulations by trying to engage stakeholders in the industry to participate in the formulation and regulation of standards and codes of conduct for intermediaries and other market professionals, and corporate governance for directors and management of listed companies. In this regard, the SEC is encouraging relevant private agencies to increase their roles as SROs.

In addition, investors must be enriched with knowledge on their rights and how to protect themselves. In this regard, there will be several laws to enhance investor power and legal foundation for effective enforcement such as laws on class actions, civil penalty, etc.

Despite the fact that new regulatory discipline as abovementioned will help reduce costs and enhance the flexibility of the businesses in the market, it will take some time to prepare for the implementation to the whole market. But some types of investors, for instance high net worth investors or institutional investors who can bear the risk at the higher level than the retail investors and have demand for more challenging investments – may be the first to undergo with the new regulatory discipline. The high net worth investors will bring more depth and breadth to make the market grow since most wealth in Thailand are concentrated within this class of investors.

Finally, let me once again reiterate our sincere appreciation to the Stock Exchange of Thailand and CLSA for their valuable support throughout the preparation for this forum. I would also like to commend Chairman of SET, Mr. Pakorn Malakul Na Ayudhya , chairman of the SEC, Mr. Thirachai Phuvanatanarubala and the president of the SET, Mrs. Pateeya Benjapolchai, for their contributions and tireless efforts to strengthen the Thai capital market in the past few years.

Thank you very much for your attention.