

Capital Market Development

“Innovative Financial”
NEDA, 23 July 2015

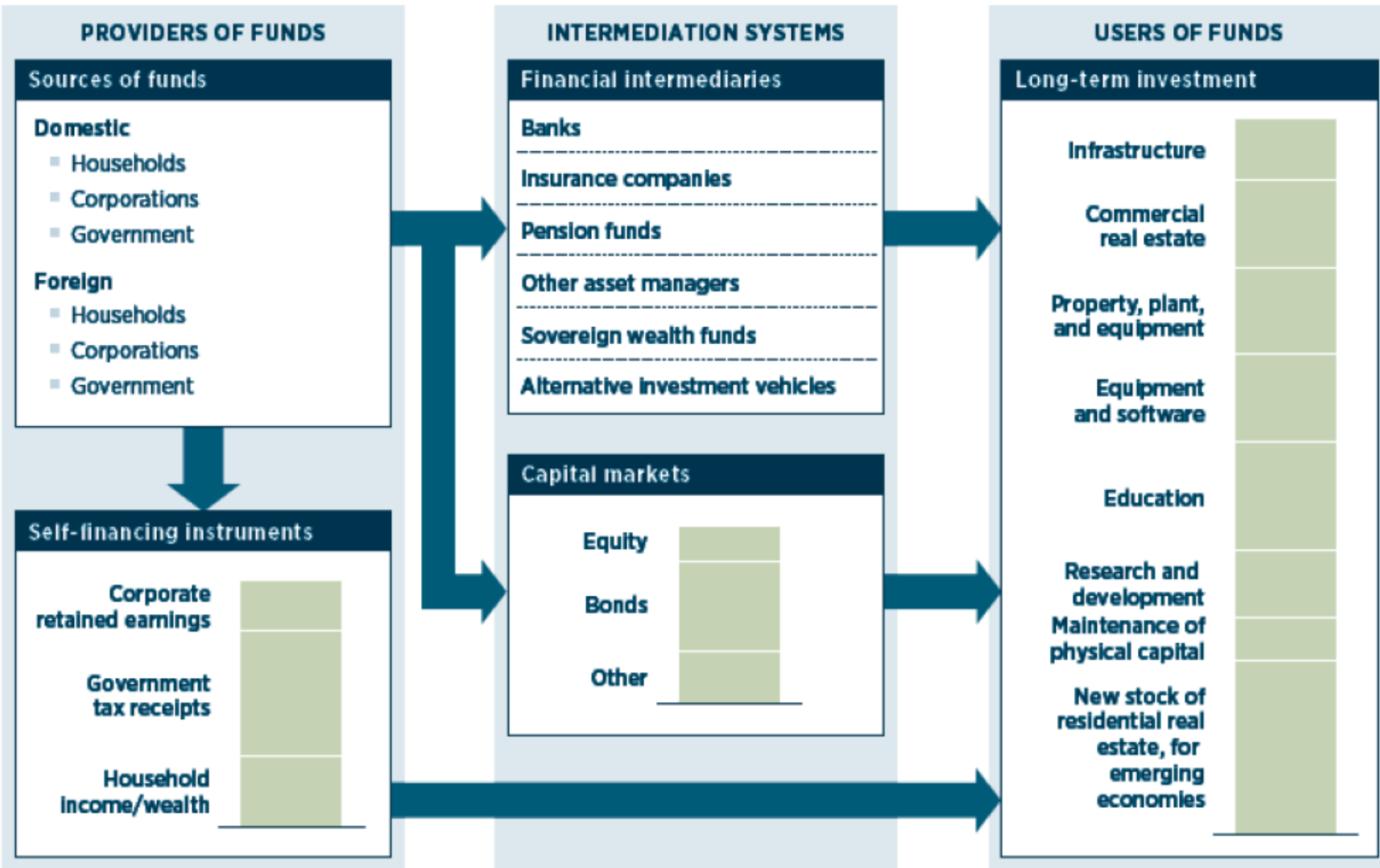
<http://www.goldmansachs.com/s/interactive-guide-to-capital-markets/>

Outline

- Why do developing Asia need need capital markets?
- Bond Financing
- Equity Financing
- ASEAN Infrastructure Fund
- Selected topics in Asian capital market development
- GMS Capital Markets

Why do developing Asia need
capital markets?

Financing for long term investment framework



Estimated needs for infrastructure investment in Asia

Sector/Subsector	National Infrastructure			Cross-border Infrastructure	Total (\$Bill)
	New Capacity	Replacement	Sum		
Energy (Electricity)	3,176.4	912.2	4,088.6	82.4	4,171.0
Telecommunications	325.4	730.3	1,055.7	--	1,055.7
Transport	1,761.7	704.5	2,466.1	204.6	2,670.8
Airports	6.5	4.7	11.3		
Ports	50.3	25.4	75.7		
Railways	2.7	35.9	38.6		
Roads	1,702.2	638.4	2,340.5		
Water & Sanitation	155.5	225.8	381.3	--	381.3
Water	47.6	106.2	153.8		
Sanitation	107.9	119.6	227.5		
Total (\$ Billion)	5,418.9	2,572.8	7,991.7	287.0	8,278.7

Source: ADB and ADBI. 2009. *Infrastructure for a seamless Asia*

Long-term funding for infrastructure

- Asia as a whole has sufficient level of savings, reflected through current account surplus
- National financial resources vary in terms of size, depth and diversity of financial markets
- Challenge is to mobilize long-term private funds
- Local currency funding - need to develop local institutional investors (pension funds, insurance companies, mutual funds)
- Abundant funding opportunities globally

Infrastructure Financing

- Infrastructure projects are generally capital intensive
- Outputs of infrastructure projects sold primarily in domestic market and paid for in local currency
- Increasing use of local capital market to finance infrastructure projects

Bond Financing

Project Bonds

Pre-conditions

- Available capital outside of the banking system
- Sufficient governance and transparency in financial reporting
- Balanced tax policy
- Project specific mechanisms to support credit quality

Current Stage of Asian Bond Markets

EXHIBIT 2 | Asia ex Japan Bonds Expected to Double by 2018



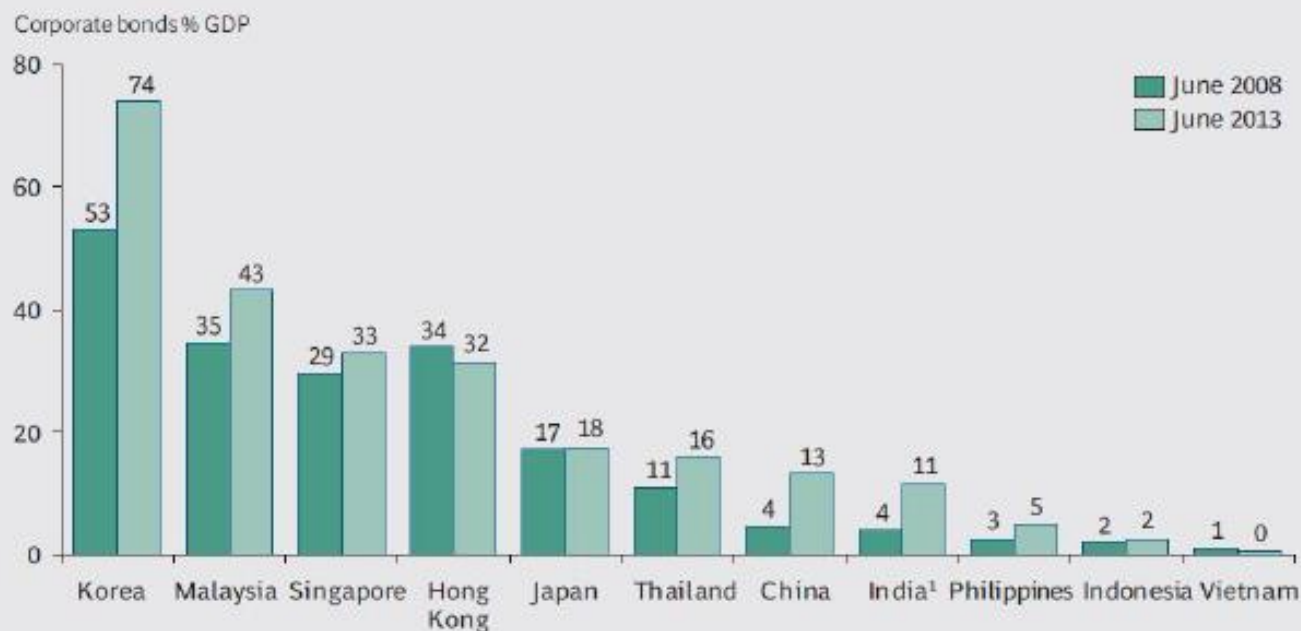
Source: ADB, AsiaBondsOnline, BIS, Fung Global Institute, Morgan Stanley, BCG analysis.

Note: 2013 estimated based on June YTD figures. Excludes Australia and New Zealand.

Current Stage of Asian Bond Markets

EXHIBIT 3 | Asian Bond Markets at Different Stages

Corporate bonds outstanding relative to GDP for Asian markets



Source: ADB, AsiaBondsOnline.

¹India data for Q4 2012.

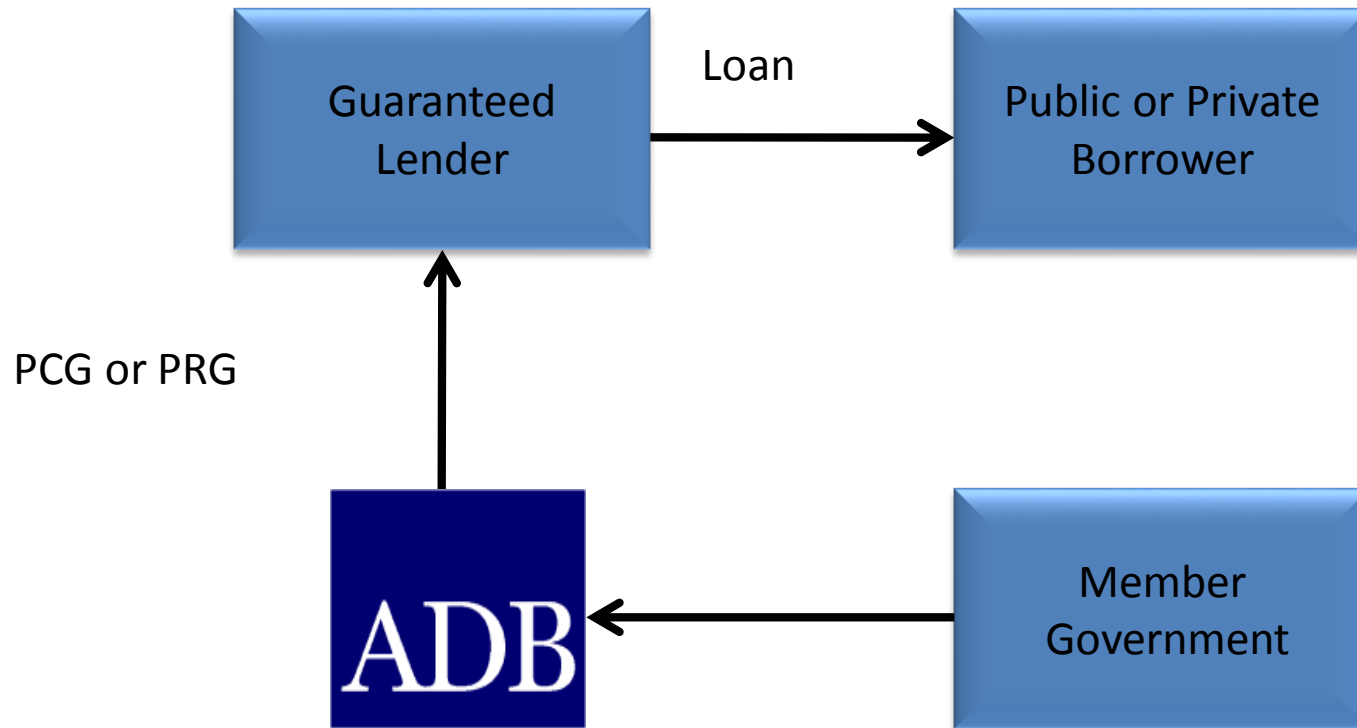
ADB Guarantee Products

- Partial Risk Guarantees (PRG)
 - Transfer Restriction: inability to convert local currency proceeds in to foreign exchange
 - Expropriation: nationalization, confiscation, deprivation
 - Political Violence: inability to service debt as a result of physical damage to project's asset
 - Breach of Contract: Denial of Justice and Arbitration Award Default

ADB Guarantee Products

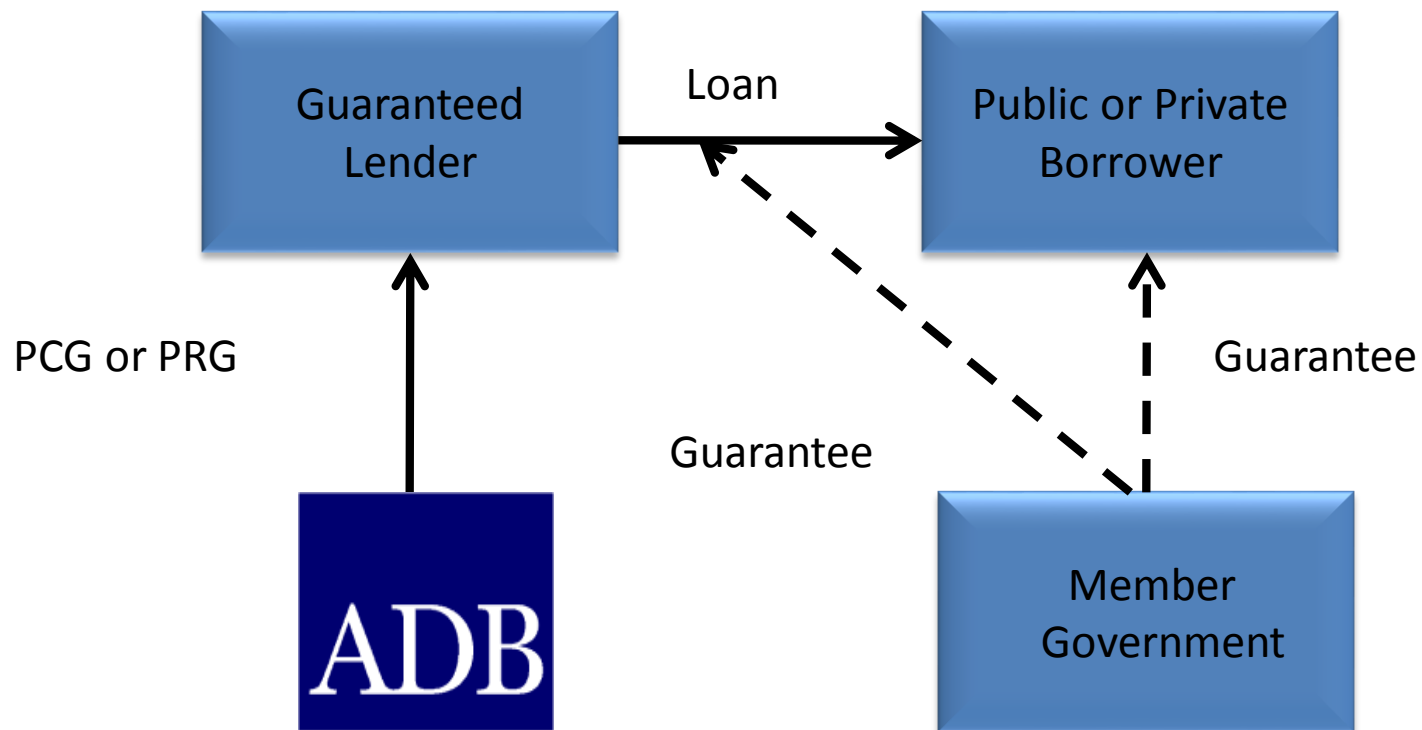
- Partial Credit Guarantees (PCG)
 - Covers nonpayment by borrowers or issuers on the guarantee portion of the principal and interest due
 - Participation requirement

Typical Guarantee Structure Sovereign Operation



Government guarantee (sovereign operations only)

Typical Guarantee Structure Non Sovereign Operation



Advantage of local bond markets

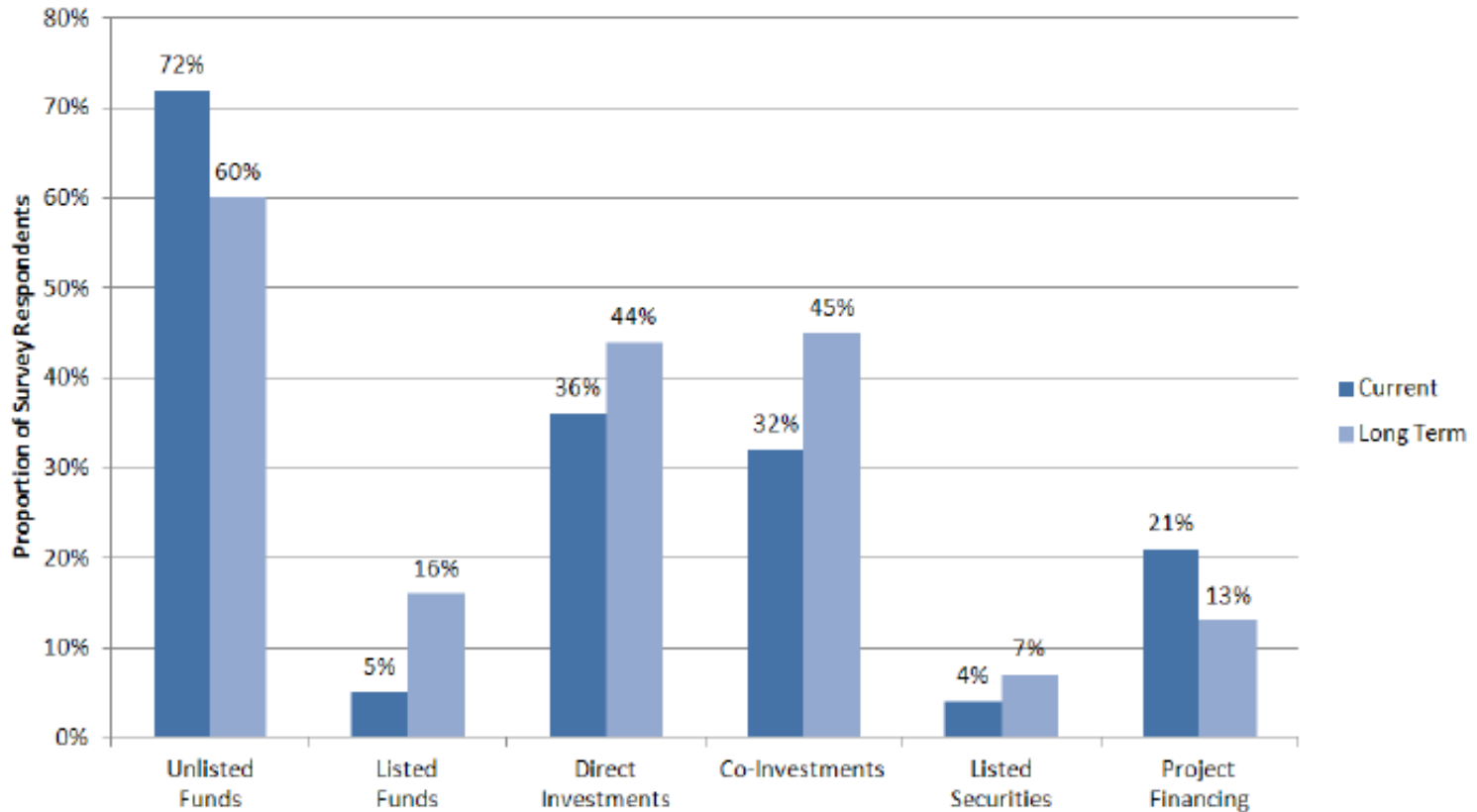
- More efficient financing for large scale and long term projects
- Greater corporate and market transparency
- More efficient risk pricing, enable lower funding cost for borrowers
- Help improve capital market depth and liquidity
- Help reduce vulnerability to external shocks

<http://asianbondsonline.adb.org/>



Equity Financing

Infrastructure Investors



Source: Preqin 2012

Equity Investment in Infrastructure

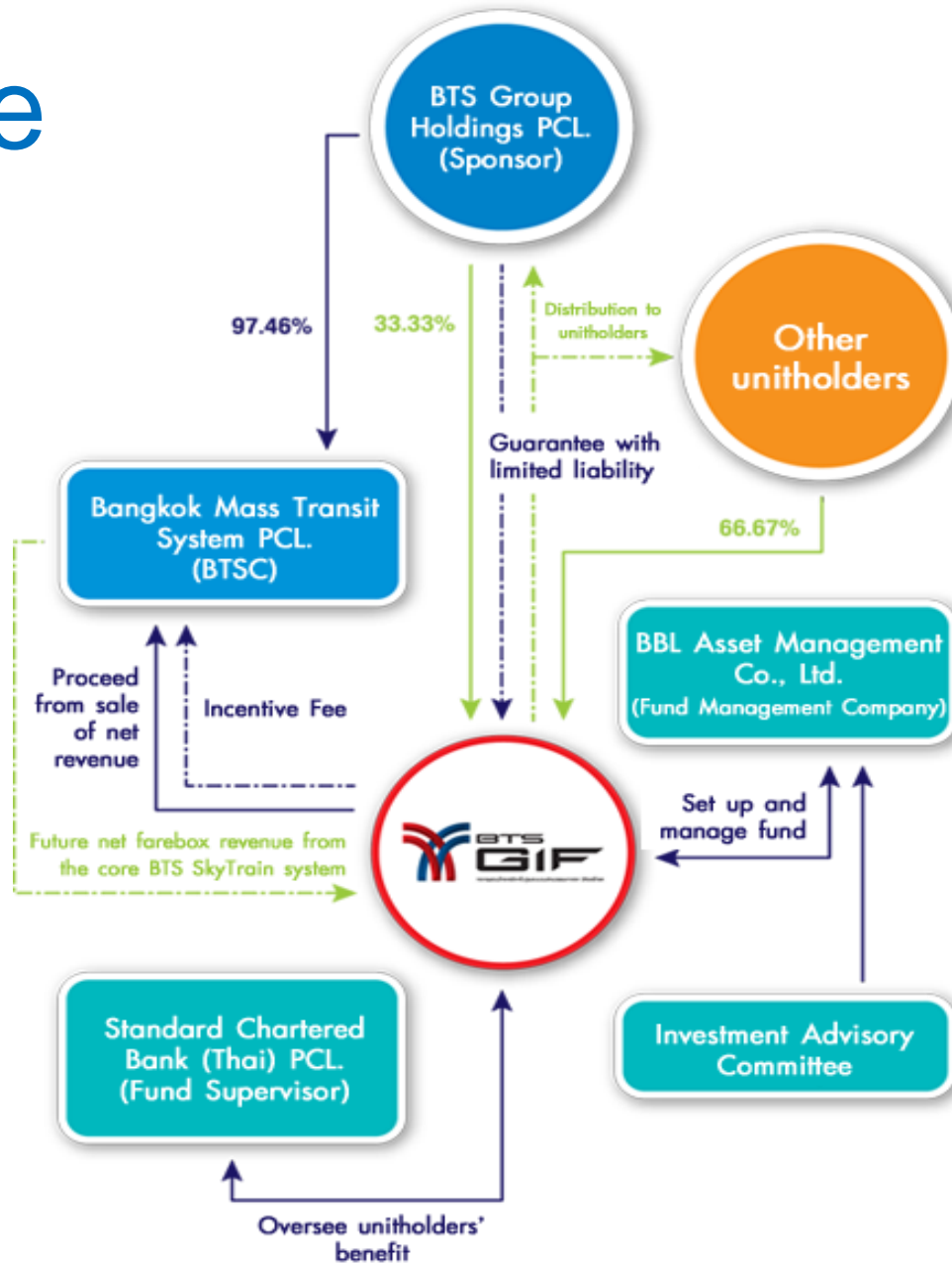
Unlisted infrastructure fund

- Commonly linked to PPP
- Investors are institutional investors

Listed infrastructure fund

- The fund is publicly listed by the assets may or may not be listed
- Aimed at both retail and institutional investors

Infrastructure Fund in Thailand



ASEAN Infrastructure Fund

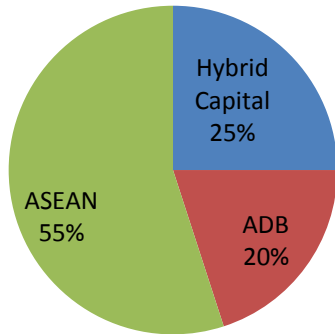


Background on AIF Establishment (part 1)

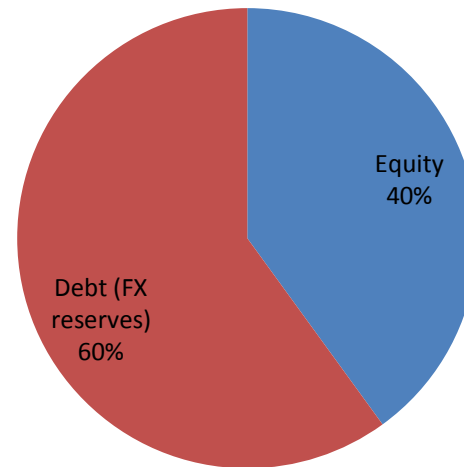
- In May 2009, the ASEAN Finance Ministers asked ADB to come up with a design of the AIF which would combine the following:
 - (1) Traditional public financing
 - (2) Domestic savings (including reserves)
 - (3) Private / debt financing
 - (4) PPP promotion
 - (5) Effective project development
 - (6) Efficient management / administration
- AIF was established as a corporate entity, domiciled in Malaysia – and engage in infrastructure lending. The Shareholders Agreement was signed on 24 September 2011.
- All investors (9 ASEAN+ADB) were represented at the AIF Board with proportional voting share for oversight functions. ADB as Shareholder, Co-Financier, and Administrator.
- Myanmar joined AIF at the end of 2014, bringing all 10 ASEAN Members into AIF.

Background on AIF Establishment (part 2)

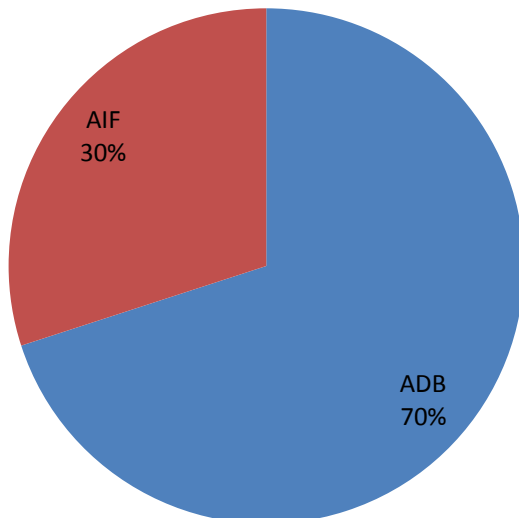
Equity for AIF



Equity & Debt for AIF



AIF+ADB Lending



Background on AIF Establishment (part 3)

Lending Volume

- Starting with \$300M on its first year, increasing +10% per year.

Scope

- During the initial years, all AIF projects will finance: (i) public projects; (ii) public portion of PPP projects; and (iii) non-sovereign loans with sovereign guarantee.
- Preferences for projects for regional connectivity.
- All AIF projects to be co-financed with ADB (“A/B” loans), and follow ADB procedures and policies.

Exposure Limits

- Country: 30%
- Sector: 40%
- Single Project: \$75 million

Indonesia Power Project Marks First Loan of ASEAN Infrastructure Fund

MANILA, PHILIPPINES - The ASEAN Infrastructure Fund Ltd. (AIF) has commenced lending operations with a \$25 million loan to fund power links in Indonesia, becoming a new source of funding for the development of priority infrastructure projects in the region.

“The commencement of AIF’s lending operations is a critical step towards mobilizing regional resources for infrastructure development in the region,” said Bambang Brodjonegoro, Vice-Minister at the Ministry of Finance of Indonesia and Chair of the AIF Board of Directors. “We are proud to note that the first project of the AIF is in Indonesia.”

Infrastructure needs in ASEAN countries are projected to be \$60 billion a year until 2020. Limited public finances cannot hope to meet the demand and while Southeast Asia has substantial levels of private savings and foreign exchange reserves, these have been largely invested outside of Asia.

“The commencement of lending by the AIF opens a new era in ASEAN-led investments, allowing ASEAN nations the means to direct and leverage resources for their own development needs,” said Ramesh Subramaniam, Deputy Director General of ADB’s Southeast Asia Department and AIF Board member. “This is only the first project for the AIF – we look forward to expanding the project pipeline into 2014.”



ADB \$172 Million Loan Targets Improved Power Delivery in Viet Nam's Main Cities

MANILA, PHILIPPINES – The Asian Development Bank (ADB) has approved a \$172.7 million loan to support Viet Nam's drive for more efficient, sustainable power supplies from its key electricity networks in Ha Noi and Ho Chi Minh City.

The project, which will be cofinanced with a \$100 million ASEAN Infrastructure Fund loan, will develop and upgrade substations, expand 110 kilovolt and 220 kilovolt transmission lines, and develop increased transformer capacity. This will ensure smoother supplies, improved system reliability, smaller power losses—caused by overloading—and reduced greenhouse gas emissions.



Selected topics in Asian capital market development

The Size of Financial System

As of 2012

	GDP (USD trn.)	Stock market cap in % of GDP	Debt securities in % of GDP	Bank assets in % of GDP	Crude leverage ratio (%)
World	72.2	72.7	137.3	162.0	411.6
EU	15.5	62.6	190.3	277.4	747.4
US	16.2	104.3	217.3	93.2	297.6
Japan	6.0	60.0	243.3	225.0	780.6
UK	2.5	136.0	232.0	428.0	485.3
Emerging markets	27	41.5	40.4	105.9	352.7
of which: Asia	12.4	47.6	44.4	159.7	428.8
of which: China	8.4	36.9	40.5	254.8	800.0
Asia total	20.5	75.1	109.3	185.9	392.9

Source: IMF Global Financial Stability Report, October 2013, Statistical Appendix, Table 1.

Asian Capital Markets: Structural Changes in recent years

Positive developments

- Shift toward bonds, substituting bank loans
- Regionalization including AEC (ASEAN Linkage)
- Increasing roles of local institutions both as industry players and investors

Asian Capital Markets: Structural Changes in recent years

Negative developments

- Slowdown of emerging markets GDP growth
- QE tapering and Fed Rate Hike
- Complex regulatory landscape

Why does Asia need larger bond markets?

- IPO markets remain sluggish
- Banks are moving to a more conservative stance due to growing concern over credit quality and the adoption of Basel III

Immediate Challenges of Asian Capital Markets

- Deploy excessive savings in Asia for domestic and regional needs
- Deepening institutional investor base and capital markets
- Increasing availability of information, disclosure and financial literacy
- Strengthen market infrastructure
- Products to serve real sector needs
- Reducing constraints and costs of funding for SMEs
- Develop sustainable model for municipal and infrastructure finance

Regional Cooperation in ASEAN

- ASEAN Trading Link
 - launched in 2013
 - Malaysia, Singapore, Thailand
 - Single access point for securities trading
- Common prospectus
 - For IPOs
 - Malaysia, Singapore and Thailand agreed on a harmonized ASEAN Disclosure Standards for prospectus
- Common passport
 - Mutual recognition framework for mutual fund
 - Allow the offer of fund to retail investors in another ASEAN country
 - Still in negotiation stage

Debt or Equity Financing?

Equity	Debt
Variable returns	Fixed returns
Unlimited maturity	Limited maturity
Residual claim	Prior claim
Voting rights	No voting rights

Source: CentreForum

The bias toward debt

UK Tax System

Equity investor	Lender
Taxed – when shares are bought (Stamp Duty)	No tax when money is lent / bond bought
Taxed – when profits are declared (Corporation Tax)	Interest payments deductible from Corporation Tax
Taxed – when dividends are paid (Income Tax on dividends)	Taxed – when interest paid (Income Tax on interest)
Taxed – when the shares are finally sold (Capital Gains Tax)	No tax upon sale of bond

Source: CentreForum

Debt/Equity Financing

Tax on Investor

EQUITY FINANCING

Net Profit	100		
CIT 20%	20	(1)	
Dividend	70		
WHT 10%	7	(2)	
Effective Tax Rate (1)+(2)	27		
Cash On Hand	73		

DEBT FINANCING

Net Profit	100		
Less Interest	100		
CIT 20%	0	(1)	
Dividend	0		
WHT 15% or 10%	15/10	(2)	
Effective Tax Rate (1)+(2)	15/10		
Cash On Hand	85/90		



GMS Capital Markets

GMS EQUITY MARKETS 2013

Different Stages of Development

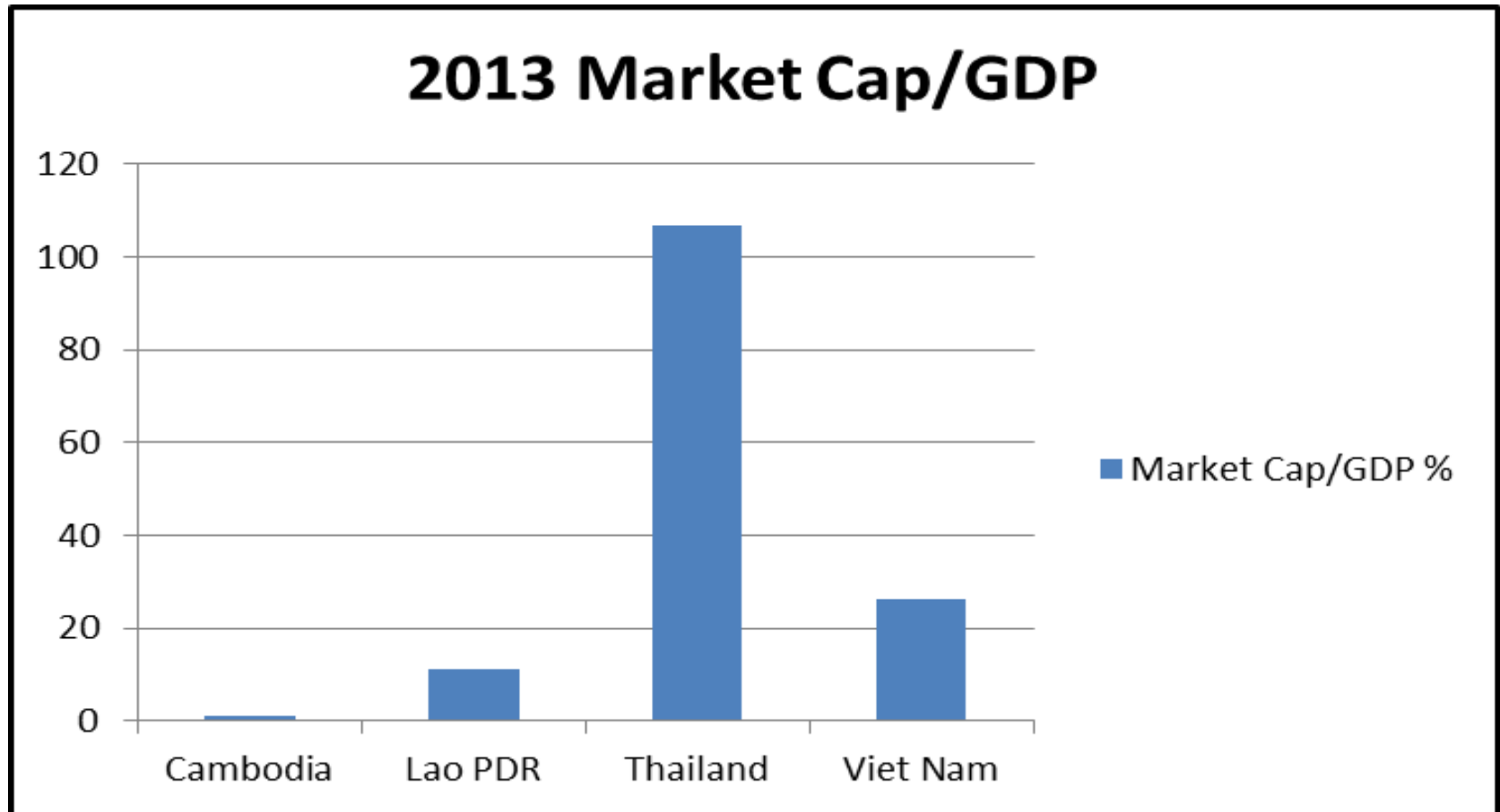
- ❖ Among GMS countries, big differences exist in terms of market cap, market cap as % of GDP and number of listed companies

	Domestic Market Cap	Market Cap % of GDP	Number of Listed Companies
Cambodia	\$135.6 Million	1	2
Lao PDR	\$1.1 Billion	11.3%	4
Myanmar	N/A	N/A	N/A
Thailand	\$389.8 Billion	106.6%	558
Viet Nam	\$37.3 Billion	26.3%	704

Source: World Federation of Exchanges, and KPMG Report 2013

GMS EQUITY MARKETS 2013

Different Stages of Development



Source: World Federation of Exchanges, and KPMG Report 2013

Status and challenges for Cambodian equity market (CSX)

- Cambodia Securities Exchange (“CSX”) in July 2011, as a joint venture between the Cambodian Ministry of Economy, which controls 55%, and the Korea Exchange (“KRX”).
- The CSX started trading in April 2012, though there remains only two listings on the exchange – the state-owned Phnom Penh Water Supply Authority and Grand Twins International PLC
- Unclear listing rules and companies don’t understand the process of raising funds through the market.
- Lack of understanding and financial literacy on investment in the stock market

Source: KPMG Report 2013

Status and challenges for Lao equity market (LSX)

- Lao Securities Exchange (“LSX”), was established in October 2010, as a joint venture between the Bank of the Lao PDR (51% ownership) and the Korean Exchange, KRX.
- Trading began in early 2011, currently there are 4 listed companies on LSX
- Foreign investors tend to trade these stocks more actively than their domestic counterparts; more than half of all transactions on the LSX were carried out by foreign investors in 2012.
- Despite foreign interest, limitation of foreign equity reduces interest for more foreign listings. Unlikely to have more local listings unless from government push on state owned enterprises
- Local investors invest without necessarily understanding fundamentals of market

Source: KPMG Report 2013

Status and challenges for Myanmar equity market (YSE)

- Securities Exchange Law enacted July 2013
- Myanmar Securities and Exchange Commission (MSEC) established in August 2014. Yangon Stock Exchange (YSE) targeted to begin operation by end-2015
- Need to have sufficient resources to have adequate staff and strengthen capacity of the regulator (MSEC)
- Framework and guidelines need to be developed for listing requirements including prospectus disclosure
- Need to identify companies that are: (i) interested in listing, and (ii) meet the requirements to list
- Need to develop pool of intermediaries including brokers, securities companies and supporting services such as law and accounting firms

Possible GMS Collaboration

- Capacity Building: Cambodia and Lao securities market and regulator need support for capacity building in a variety of areas including:
 - i) intermediaries licensing & supervision;
 - ii) product development;
 - iii) investigation and enforcement; and
 - iv) clearing and settlement
- Investor Outreach: Financial literacy for investors need to be strengthened to increase demand and provide understanding of fundamentals of market.

Possible GMS Collaboration

- Knowledge Sharing: Thailand (SEC and SET) and Viet Nam (SSC, HNX and HOSE) can support GMS neighboring countries through sharing of information, capacity building, training, staff exchanges and other programs.
- Leverage Expertise in the Broader ASEAN Economic Community: There is also potential to have wider collaboration and obtain capacity building support through the ASEAN Capital Market Forum (ACMF) from other ASEAN Member Countries such as Indonesia, Malaysia, Philippines and Singapore.

Towards strong capital market development

- Stable macroeconomic policies
 - Monetary policy
 - Inflation rate
 - Clear issuance strategy and debt management framework
- Strong legal and institutional environment
 - Contract enforcement
 - Corporate governance
 - Rights of investors and creditors

Towards strong capital market development

- Financial infrastructure
 - Trading platform
 - Clearing and settlement
 - Payment system
 - Sound banking system

Thank you

