

Amando M Tetangco, Jr: Consultation, collaboration and cooperation – moving the capital market agenda forward

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the CMDC (Capital Market Development Council) Inaugural Consultative Forum, Manila, 16 September 2015.

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Today's forum provided us another opportunity to take stock and look ahead. The major difference is of course that the CMDC has invited all stakeholders – and not just the members of the Council – to be here and openly discuss the issues. With this broad audience, we aspire to take a more holistic view of the issues and take a collective stand.

Introspection

A critical need in this regard is to have coordination and collaboration, which I was told, the presentations this morning clearly emphasized. The issues that confront us do so as a market and no matter how we see them through the lens of our own respective views, the consequences of any action or inaction will always be felt collectively.

This is the direct consequence of being a market. We may offer different products and services but we certainly operate together as a collective basket of choices and alternatives for our constituencies. It is the very nature of financial markets that our products and services compete with one another as substitutes, but it is also in having this array of alternatives that we complement each other.

This balance between substitutes and complements nurtures a stable market. This state of competitive parity also reminds us that in pursuit of such a thriving market, we need to recognize that there are larger issues before us beyond competition at the product level.

If we can step back for a moment, available data tells us exactly where we are.

- We remain what analysts refer to as a bank-centric market, with the bulk of financing emanating from our banks rather than the capital market.
- For the equities market, we have 262 publicly-listed companies with a market capitalization amounting to USD 279.5 billion.
- For the securities market, the turnover ratio of our government bonds is reported to be 0.49 with the corporate bond market growing but still in its nascent stage of development.
- In terms of FDI, the Philippines received USD 78.6 million in flows in 2014 originating within ASEAN.
- With respect to pricing and valuation benchmarks, price-discovery across all tenor buckets remains work-in-progress; and
- On financial market infrastructure, this too is very much work-in-progress.

Do any of these really matter?

If we are going to talk about ASEAN integration, we certainly need to have a thriving market that can connect and compete with the rest of the region. While many jurisdictions in ASEAN – and Asia for that matter – remain bank-centric, the pressure on the banking books needs to be mitigated when 15, 20 and 25 year loans are generated from a funding base largely made up of savings deposits. The gapping risk is significant and the global focus on liquidity risk makes this issue even more stark.

But being bank-centric cannot be taken independently of the other financing alternatives. While we have 262 publicly-listed companies with a market cap of USD 279.5 billion, the average for the rest of ASEAN-5 is 612 listed companies with a market cap of USD 406.9 billion.

Our GS turnover ratio of 0.49 is also lower than the average for the rest of ASEAN-5 which is at 0.69. The lower trading activity could be attributed to several factors. The net effect however is that we have less liquidity in the secondary market and with that comes our challenges with benchmarks.

Renewed reform agenda

Ladies and gentlemen, the numbers are available for everyone to see. But beyond the figures, I trust that today's forum is a call to action, highlighting where we are and what needs to be done.

From today's proceedings, allow me to offer my own thoughts on four issues.

First, the Capital Market Development Blueprint is our guidepost in terms of three facets: price, volume and infrastructure. We strive for price discovery to develop a robust yield curve. We should do this by trading on exchanges or electronic platforms, premised on Government Securities that have depth across the curve. We should also be unrelenting in upgrading the financial infrastructure to ensure competitive and efficient markets, enhance market discipline and protect investors.

Second, ASEAN integration of capital markets provides both investors and issuers new opportunities. We can only effectively reap these opportunities by ensuring that our own market is competitive. Thus, the challenge is to appreciate what needs to be done, first for our market but with an eye towards the regional market.

This agenda is massive because we need to focus on trading and post-trade infrastructure (from CCPs to CSDs, to SSS, TRs) to applying established standards (RTGS for large value payments and securities settlements to viable forms of deferred net settlement for the more retail payments) to streamlined processes (DvP and the settlement cycles), and to acceptable products and the requisite policies and regulations to address financial risks.

Third, tax reform is always going to be a slippery slope. We recognize the need for the State to define and manage its fiscal position. We also believe that financial choices must be based on the intrinsic value of the products rather than on the friction costs that arise from one transaction to another. Thus, what is needed is to strike a balance between fiscal and developmental initiatives. We must ensure to avoid tax arbitrage while being cognizant that we may need the legislative process to find a solution for some of the issues.

Last, but not the least, all our efforts fall short if we are not able to improve the financial well-being of our financial consumer. We need to be clear that this cannot simply be a matter of delivering off-the-shelf lectures on technical concepts and sophisticated products.

The effort here needs to cultivate behavior and attitudes as well. And to ensure sustainability, new financial education initiative needs to be complemented by a robust and effective redress mechanism for stakeholders who feel that their rights have been compromised. This is in keeping with our desire to develop a thriving market.

Final Words

Ladies and gentlemen, there are many initiatives, both onshore and at the regional level, that are being pursued under the name of capital market development. For sure, the road towards a deep domestic and an integrated ASEAN capital market will not be without its challenges. But these challenges cannot be our binding constraints and I trust that creating the four new sub-committees in CMDC moves us forward.

What is also clear is that we must intensify our collaboration and ensure that the governance of the domestic market is not compromised. Through concerted efforts, I have high hopes that we will surpass our challenges and the rewards of capital market deepening will be ours for the taking.

Thank you.