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Thailand Capital Market
Development Fund

Improving Thailand's Capital Market Competitiveness & Efficiency

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President

Thailand Capital Market Development Fund

19 January 2023



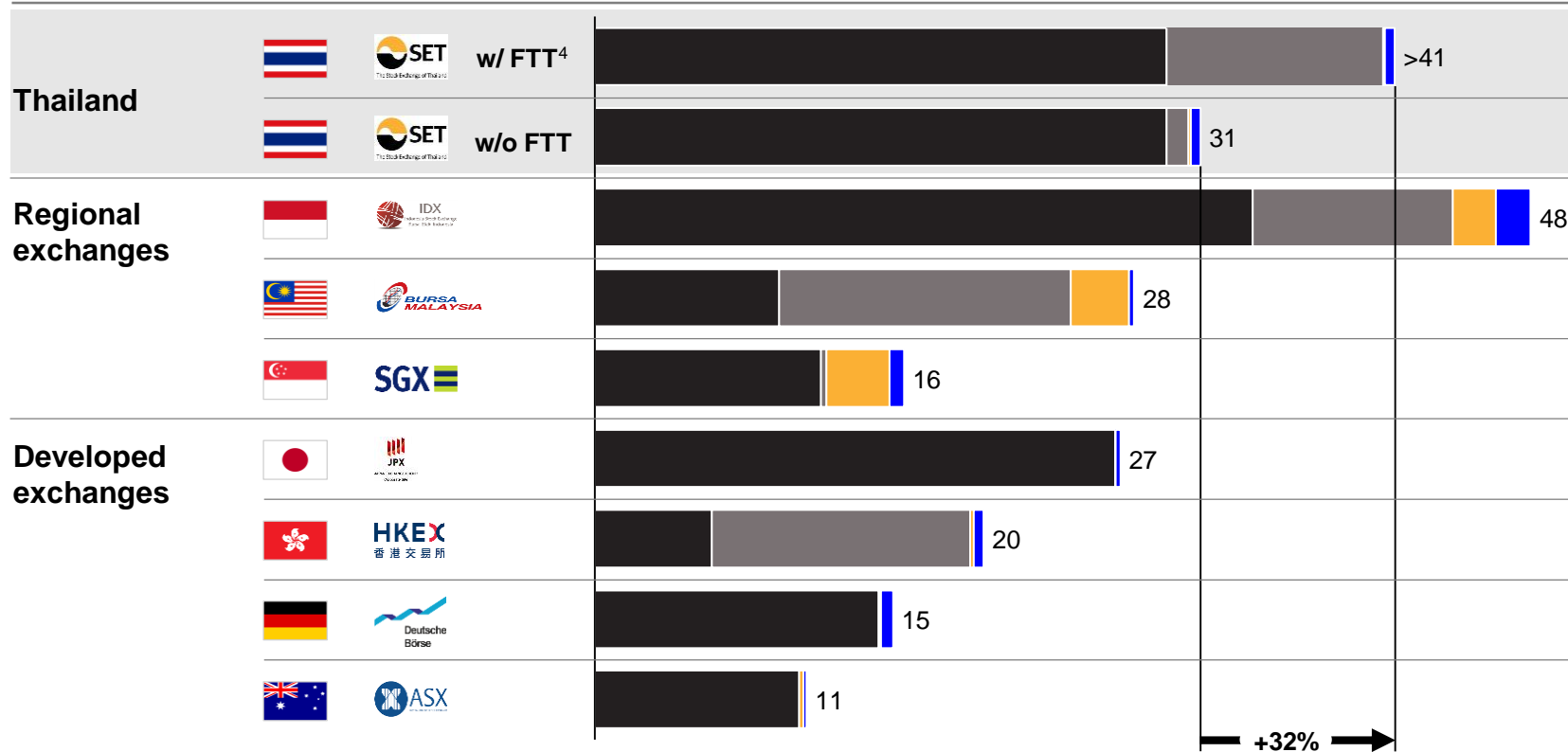
Exhibit 16 : SET's cost of cash equity transactions (trading) compared with peers

ROUGH INDICATION BASED ON 1 DAY TRADING DATA (FEB 23, 2022)

OUTSIDE-IN

■ Spread¹ ■ Regulatory fee and other taxes² ■ Post-trade fee ■ Exchange fees

Total cost of cash equity transactions for exchange participants³, as in Feb 2022, bps



After FTT,
total cost of equity transactions
can be expected to
reach > 40 bps
(Rank 2nd in the region)






NOTE: Nasdaq (USA) charges flat fee per trade. Ho Chi Minh SE charges flat fee in post-trade;

1. 50% of bid-ask spread all constituents of main index – estimated using bottom-up analysis of all stocks under the main index and aggregated based on market cap weights (ASX (ASX 50), JPX (TOPIX Core 30), Deutsche Boerse (DAX), SGX (FTSE Straits Times), HKEx (Hang Seng), SET (SET 50), Bursa Malaysia (FBMKLCI), IDX (LQ45));
2. Includes regulatory levy, transaction tax, local tax, stamp duty and other taxes as applicable
3. Analysis based on market excludes brokerage charges – negotiable in most countries; analysis conducted based on one day in Feb 2022
4. As per current debate, FTT to be charged only on the 'sell' leg of eligible cash equities transactions from investors with monthly turnover of > 1-2 Mn THB

Source: Bloomberg, exchange fee schedules, press search

Exhibit 28 : Selected examples of countries which introduced financial transaction tax

ILLUSTRATIVE NOT EXHAUSTIVE

Country	Description	Key reactions in capital markets
	Feb 2021: Hong Kong's government increased its stamp duty by 0.03% per leg (now at 0.13% for each leg) on cash equity transactions	<ul style="list-style-type: none"> • Shares of the exchange (HKEx) declined 8.8% on the first day • Decline of ~36% in ADV³
	Jan 2021: Spain introduced a financial transaction tax of 0.2% on purchase of qualifying shares ¹ to generate additional revenues of EUR 850 Mn for the government	<ul style="list-style-type: none"> • IAFR has lowered revenue collection citing impacts on capital markets • A decline of 7% in ADV³
	Mar 2013: Italy introduced a financial transaction tax on issuance (incl. transfer ²) and transactions (both legs) of both cash and derivative products. Variable tax rates - 0.2% (OTC), 0.1% (regulated markets) to 0.02% (high frequency trading)	<ul style="list-style-type: none"> • Italy experienced a 34.2% relative decline in ADV³ (Italian stocks fell 29.7% vs. 4.5% increase in EU stocks)
	Aug 2012: France introduced a financial transaction tax on buy-leg of the transaction. Variable tax rates – high for regulated markets - 0.2% (now 0.3% for cash equities (raised in Jan 2017) and significantly lower for HFTs at 0.01% on buy-leg of the transaction	<ul style="list-style-type: none"> • Government revenues adjusted downwards by >50% from initial estimate • France experienced a 6.4% relative decline in ADV³ (French stocks fell 9.2% vs. 2.8% in EU stocks)
	Oct 2004: India introduced securities transaction tax (STT) on cash equities at 0.15% – charging both buy and sell sides at 0.075% each --, and on derivatives at 0.01% on sell side leg	<ul style="list-style-type: none"> • Average trading volume at BSE and NSE increased • Potential reasons : (1) end of confusion on STT (2) positive market expectation on Macros, and (3) the decrease of inflation rate

1. Spanish companies with market capitalization of > EUR 1 Bn

2. Scope includes primary issuance, conversion of bonds, transfers by way of inheritance or donation, transactions of temporary acquisitions of securities (e.g., repos, securities lending)

3. Average daily traded value

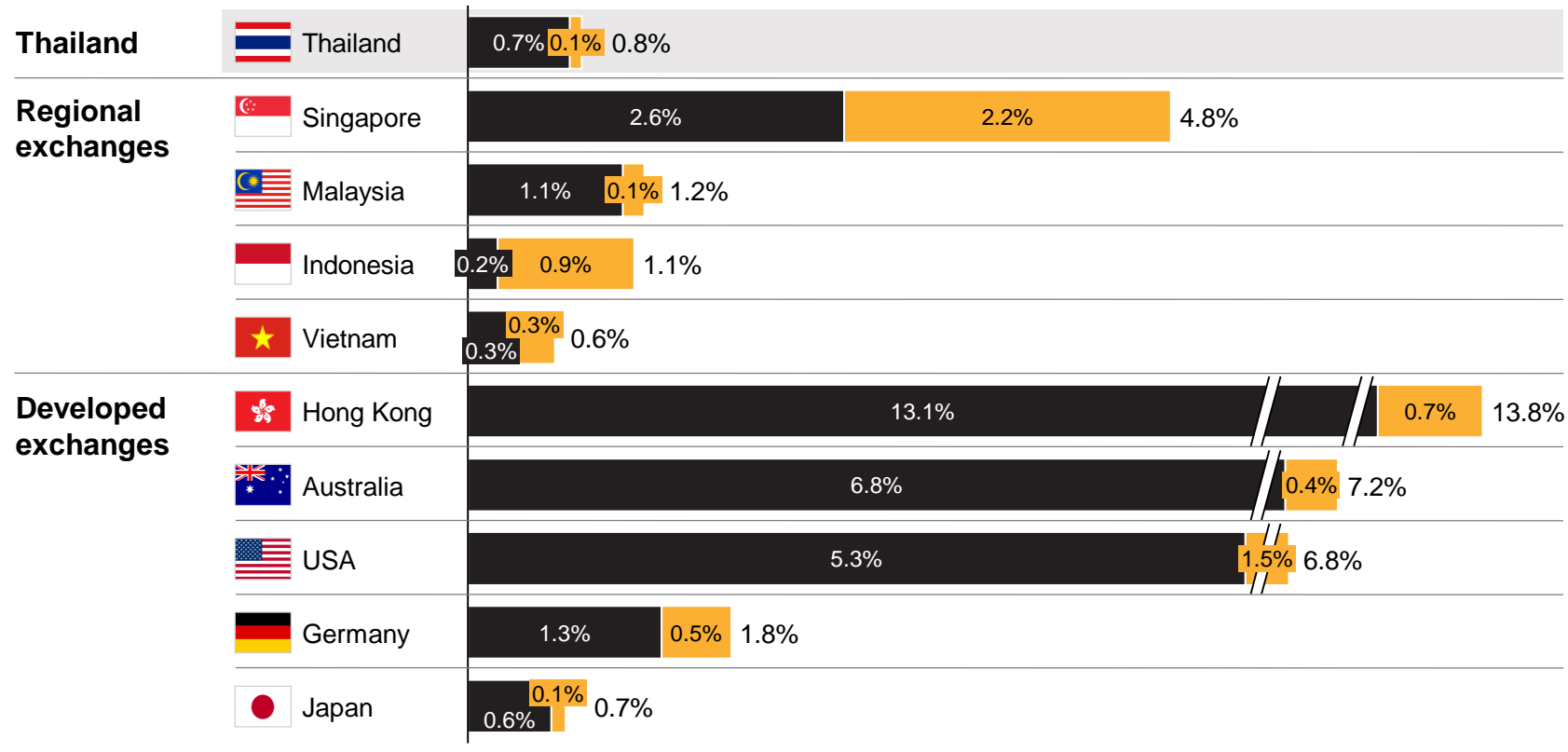
Note: Only short-term market reaction captured

Exhibit 23 : Thailand has an opportunity to deepen its PE/VC funding

As on 31st December 2021

■ PE investments (as a % of GDP) ■ VC investments (as a % of GDP)

Private equity and venture capital investments maturity, 2021, % of GDP



Benchmark Average

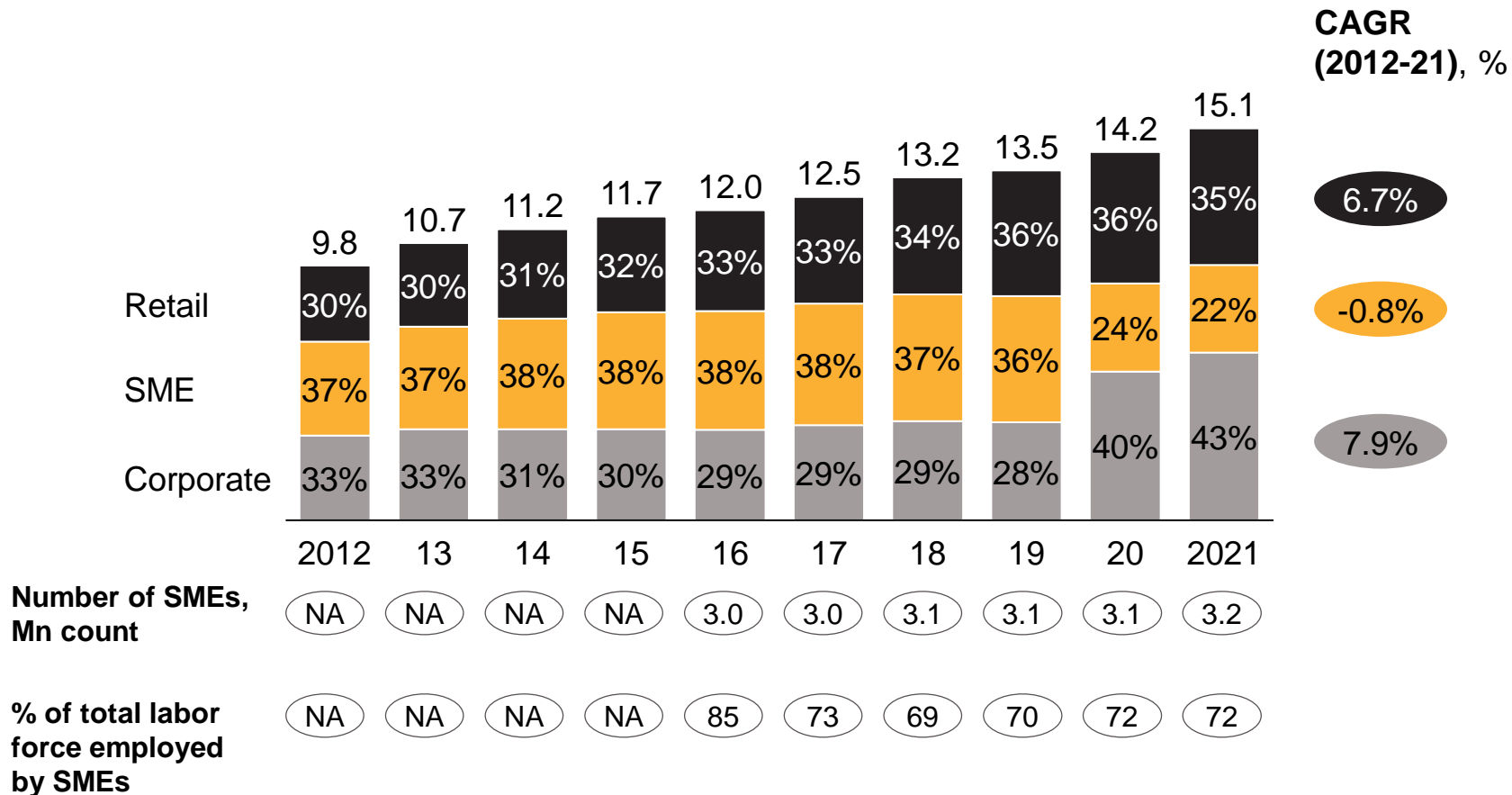


Thailand's with **lower private equity and venture capital investments** (0.8% of GDP vs 3.9% average)

Limited domestic PE and VC funds compared to peers

Exhibit 33 : Share of loan outstanding of SME segment has gone down from ~40% to ~20%

Loan outstanding by client sector (2012-2021), THB trillion



SME's loan outstanding has **declined** from 36% of total loan outstanding in the system in 2019 to 24% in 2020 during the pandemic as banks adopt prudent policies on loan quality

Insufficient financing would put pressure on recovery and new growth trajectory of SME and overall economy

Exhibit 50 : Capital markets solutions for SMEs and start-ups in Thailand is behind regional peers

NOT EXHAUSTIVE

Capital markets solutions for SMEs and start-ups¹



Not started Developing Developed

Thailand's status compared with peers

Direct Mechanisms for SME Financing		Thailand	Singapore	Indonesia	Malaysia	Notes	
Direct Mechanisms for SME Financing	Equity						
	Private equity / Venture capital	Developing	Developed	Developed	Developing	Smaller size of top local funds²: TH's NHTPE ³ (\$440 mn), SG's Temasek and GIC, IN's INA ³ (\$5 bn), MYS's Creador (\$600 mn)	
	Equity crowdfunding	Developing	Developing	Developing	Developed	Smaller equity crowdfunding transaction value estimated: TH \$9 mm in 2022 vs \$8.9 mn in SG, \$565k in IN, and \$19mn in MY	
	Equity issuances and specialized SME markets	Developing	Developed	Developed	Developed	Early-stage of SME/startup exchange: SET's LiVEx launched in Mar'22 with zero stock listed vs 23 on IN's Akselerasi, 49 (launched in Jul'19) on MY's LEAP (launched in Jul'17)	
	Debt	Receivable-based solutions	Developing	Developed	Developed	Developed	Recent launch of digital factoring regulation by BOT in Sep'20; Funding societies and Validus offering digital factoring in regional peers
		Loan-based solutions	Developing	Developed	Developed	Developed	Recent open on P2P lending: 1 st P2P sandbox testing accepted by BOT in 2020 with release of first subject in 2022 (vs the launch in SG, IN, and MY during 2015-16)
Securities offering solutions		Not started	Not started	Not started	Not started	No clear evidence of SMEs' bond issuance by these peer countries	
Indirect Mechanisms for SME Financing	Plain vanilla issuances by SME lenders	Developed	Developed	Developed	Developed	Equity and bond markets available for NBFIs or specialized finance to raise funds for their business operations, including SME funding	
	SME loan securitization	Not started	Developing	Not started	Not started	Singapore is the only country that complex product on SME has been experimented, e.g., DBS offers securitization and structure notes	
	SME structured notes	Not started	Developing	Not started	Not started		

1. World Bank Framework

2. Local funds mean the fund that has local HQ, invest locally and owned by local entities. INA and Creador are local funds. NHTPE is the JV between Morgan Stanley and Bangkok Bank (BBL)

3. NHTPE stands for North Haven Thai Private Equity Fund managed by Morgan Stanley Capital Partners; INA stands for Indonesia Investment Authority – a SWF of Indonesia



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Globally, multiple initiatives being undertaken to nurture SMEs and startups

Detailed next

Description	Case examples
A Setting up of funds to invest in SME and start-ups	 <p>Fostered growth of technology industry by setting up a fund and incubating ~200 tech IPOs</p>
B Encouraging funding to SME/ start-ups by providing incentives (e.g., risk sharing mechanism in debt lending)	 <p>Attracts VCs to startup ecosystem by providing co-fund matching and structuring mutually beneficial outcomes</p>
	 <p>Provides risk sharing mechanism in debt lending channel to encourage capital outreach to SMEs/start-ups</p>
C SME listing venue/ alternate board	 <p>Promotes investments into SMEs through incentives including loss guarantees, buying out new bonds from SME (in case of losses)</p>
	 <p>LEAP Market has 49 listed SMEs</p>
D Providing an online platforms to help connecting SME/ start-ups with buy-side	 <p>LSE's AIM has 850 listed SMEs with yearly listing of > 5 Bn GBP</p>
	 <p>Provides a SaaS which connects private companies with investment funds</p>
	
	
E Crowdfunding	 <p>Funding Circle is the largest online small business loans provider and one of the largest crowdfunding platforms in the world with £13.7 Bn lent globally to 122,000 small businesses so far</p>

Thailand has provided support through the following initiatives

- Setting up of **SME listing venue (MAI)**
- **LiVE platform**
- Setting up of **various PE/ VC funds** e.g., Finnovator Private Equity Trust, SMEs Private Equity Trust Fund, Venture Capital Trust
- **Thai Credit Guarantee (TCG) has provided credit guarantees** to support lending to SMEs and start-ups
- **Crowdfunding platforms** (e.g., Weeboon, Krungsri Securities launching debt Crowdfunding), however the interest rates are high

Additional measures could be explored to further strengthen and scale up support:

- **Select incentives** (e.g., risk sharing guarantees in case of debt lending) to boost capital flow for scalability
- Further improve or enhance the current initiatives (e.g., more capital in funds, improve LiVE, further incentivising funding to SMEs/ start-ups)

Ex : Singapore government attracts VCs to startup ecosystem by providing co-fund matching

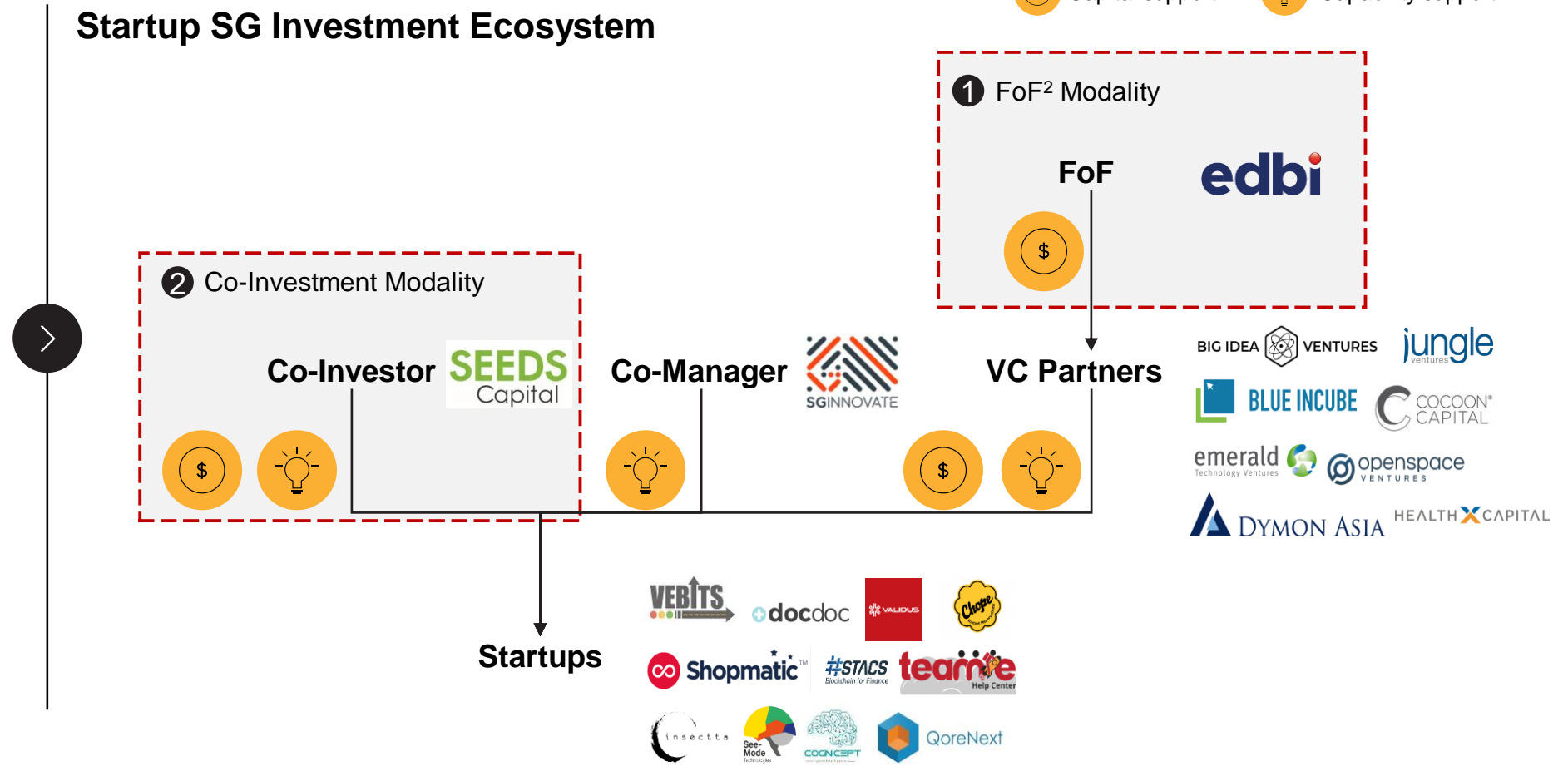
NOT EXHAUSTIVE

Startup SG is an initiative by **Enterprise Singapore**¹ to promote Singapore start-ups both **locally and overseas**

Startup SG Equity is a **scheme** under Startup SG - aims at **stimulating private sector investments** into innovative, Singapore-based tech startups with **intellectual property** and **global market potential** with **2 interventions**:

1. **FoF modality**
2. **Co-investment modality**

Startup SG Investment Ecosystem



1. Statutory board by the Ministry of Trade and Industry 2. Fund-of-funds 3. Start-ups whose business model is built around critical, proprietary technologies, research, or hardware, and for which significant developmental efforts are needed before the product is ready for sale

Ex : Poland is promoting investments into SMEs through various incentives in cooperation with the European Investment Fund



	Trigger	Description of measures	(Expected) impact
Polish Growth Fund of Funds (PGFF)	Low level of equity investments into SMEs	<ul style="list-style-type: none"> • Fund of fund initiative launched in 2013 by European Investment Fund in close co-operation with stated-owned BGK bank • Initial EUR 30mn commitment from EIF with additional EUR 60mn pledged by BGK • Objective to build portfolio of venture capital, private equity, and funds with investment focus on Poland 	<ul style="list-style-type: none"> • Each EUR invested in the PGFF is expected to translate into 3 EUR invested in Polish economy • BGK aims to build similar funds in the future based on the experience with the PGFF
Silesia EIF Fund of Funds	Low level of SME financing by financial institutions	<ul style="list-style-type: none"> • The Silesia EIF FF of ~EUR 90mn was set up by the regional government in 2017 to catalyze retail investments and facilitate access to finance for SMEs • Provide risk sharing loans and first loss portfolio guarantees to financial institutions 	<ul style="list-style-type: none"> • Significant increase in access to finance for viable SMEs
InnovFin SME Guarantee Facility	SMEs experiencing funding gaps in growing their business	<ul style="list-style-type: none"> • Guarantee agreement signed by European Integration Fund (EIF) and CVI, a private investment company, supporting a ~EUR 200mn portfolio of bonds to innovative Polish companies in 2018 • Part of the EU's InnovFin SEM Guarantee Facility, guaranteeing FIs against a portion of their losses • CVI will purchase new bonds from SMEs under preferential conditions 	<ul style="list-style-type: none"> • CVI plans to purchase new bonds from a total of ~60 Polish SMEs • Due to the risk-sharing agreement with the EIB, much higher overall investment amount compared to private market

Ex : Bursa Malaysia established LEAP Market as a separate board for SMEs



Basic info



- **LEAP Market**, the SME exchange founded in 2017 by Bursa Malaysia¹
- **Run with advisor-driven model** in which SMEs need to be endorsed by advisor post suitability and viability assessment

Objectives



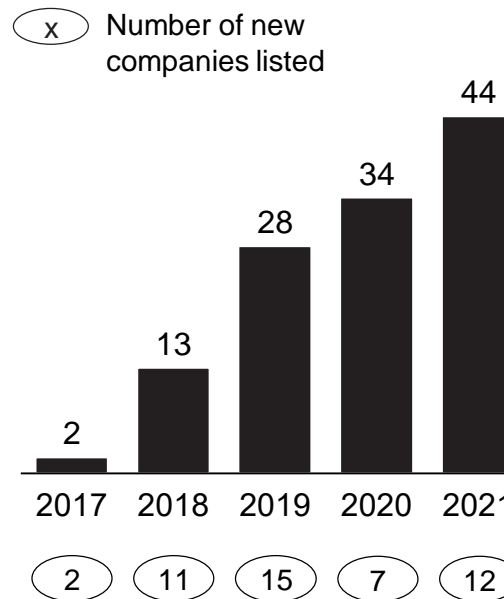
- To support the **country's direction to develop SMEs**
- To create a **platform for SMEs** and companies **to raise funds**
- To provide an alternative and complementary platform **for Sophisticated Investors³ to invest in the growth of SMEs** and companies
- To provide Sophisticated Investors³ **access to a wider pool of potential investments**

Outputs and market feedback



- As of 2021, **47² companies listed** on LEAP market and **raised almost \$60 mn** since 2017
- Higher level of investor's awareness toward LEAP market driving **increased visibility of listed SMEs and higher interest of SMEs to list** and raise funds on LEAP
- Transparency in post-listing's **disclosure of SME's financial statements** encouraging proper bookkeeping and **better accounting/operational management**
- **Lack of 'transfer of listing' framework** to other exchanges causing 3 companies de-listed from the market; Bursa Malaysia taking the feedback and conducting public hearing in the consultation paper in Aug'22 on drafting 'transfer of listing' framework for LEAP market
- **Low liquidity** with restriction on participating investors to sophisticated investors only³

Number of SMEs listed on LEAP



A few key lessons Learned:

- **Growth of the SME exchange is driven by investor's awareness of the exchange and visibility of listed SMEs** -- both of which incentivize more SMEs to be listed on the exchange; number of new companies listed on LEAP equivalent to the sum of number of newly listed companies in ACE and main exchange combined in 2018 and 2019
- **Strategy of the market should include the entire growth journey of a company**, e.g., the transition from SME exchange to the larger exchange
- **Regulators should be responsive to listen to market feedback and facilitate higher efficiency**, e.g., LEAP plans to put in place the 'transfer of listing' framework to support growth of SMEs

1. A stock exchange of Malaysia that regulates the capital market in Malaysia along with the Securities Commission of Malaysia, 2. one company were delisted in 2020 and 2 companies were delisted in 2021, 3. Accredited investors; High net-worth entities (Net Assets >\$2M); and High net-worth individuals (Net Assets >\$700k or Income >\$70k)



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