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The Role of Market-based Financing in Growth Emerging Markets

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Part I – Regulatory, market and technology challenges

Part II – Transformation of market-based financing

Part III – Ideas for the development of market-based financing

Part I

The industry is now facing regulatory, market and technology challenges

Regulatory reform is still ongoing

- G-SIFI
- Stringent capital requirements like Basel III
- Heightened regulations on OTC derivatives
- Resolution and recovering plan
- US Dodd–Frank Act
- Commission unbundling/senior manager regime in UK

Compliance prosecution is active which means higher compliance costs for the industry

- FX manipulation, LIBOR fixing
- High frequency trading
- Dark pool
- Money laundering
- Insider dealing / cyber hacking / fraud

Low growth in a matured or static market environment

- **Deleveraging means firms can’t lend more to customers**
- **Investing in new lines of business not generating ROE**
- **Firms become risk-adversive and neglect customers’ needs**
- **Lack of investment in technology and system development**

Revolution of technology makes all existing business highly vulnerable

- Artificial intelligence replaces human workers
- Lower communication and transaction costs facilitate development of new trading/lending platform like P_2P lending
- Personalized services like robo advice to be provided to mass customers at low costs
- Non traditional competitors like IT & telecommunication firms have entered into specific financial services sector like payment system

Do you have the DNA to change and adapt to the challenges?

Part II

Transformation of market-based financing

Sources of financing (traditional & non-traditional)

- **Internal equity finance, represented by owners' personal savings**
- **Trade credit**
- **Bank funding**
- **Venture capital**
- **External equity i.e. business angels**
- **Capital market**
  - Equity
  - Debt
- **Crowdfunding**

Financing through capital markets

- Companies have largely relied on bank loans for financing rather than capital markets
- Since the Global Financial Crisis, access to bank lending has become more restricted following bank deleveraging and stringent Basel III capital requirements
- A greater need for capital markets (both equity and debt) to play a stronger role as source of financing for companies

Benefits of financing through capital markets

- Better access to capital for growth with opportunities to raise funds both at the time of listing and at later stages
- Higher profile and visibility in the market
- Increased corporate transparency to gain recognition from the investing public
- Improved corporate governance as a result of listing requirements to help improve management efficiency and information flow

Multi-tiered equity capital markets have been increasingly important in providing finances for firms to access market-based financing

- Providing companies of varying size with specific entry and regulatory requirements tailored to their characteristics at lower listing cost compared to the main market
- Designating specific market segment for small companies within the main exchange
- Building a wider investor base on a transparent and compliant platform

Examples of multi-tiered equity capital markets

- National Equities Exchange and Quotations (NEEQ) was established in China in 2013 to address the different needs of firms of varying size and stages of developments
- A new market designed for small firms named KONEX was launched under Korea Exchange in July 2013
- MESDAQ under Bursa Malaysia was re-launched as a sponsor-driven alternative market in 2009
- Catalist is a Singapore Exchange – regulated but sponsor supervised market for rapidly growing enterprises
- Growth Enterprise Market (GEM) is an alternative stock market for high-growth enterprises operated by the Stock Exchange of Hong Kong
- The Securities Exchange of Thailand (SET) has operated the market for alternative investment since 1999

Debt capital market

- Issuing debt securities has become a better option during recent low interest rates environment
- Due to market structure, small firms rarely participate in corporate bond markets

Breakdown of issues in the Bond Markets as of 30 June 2012

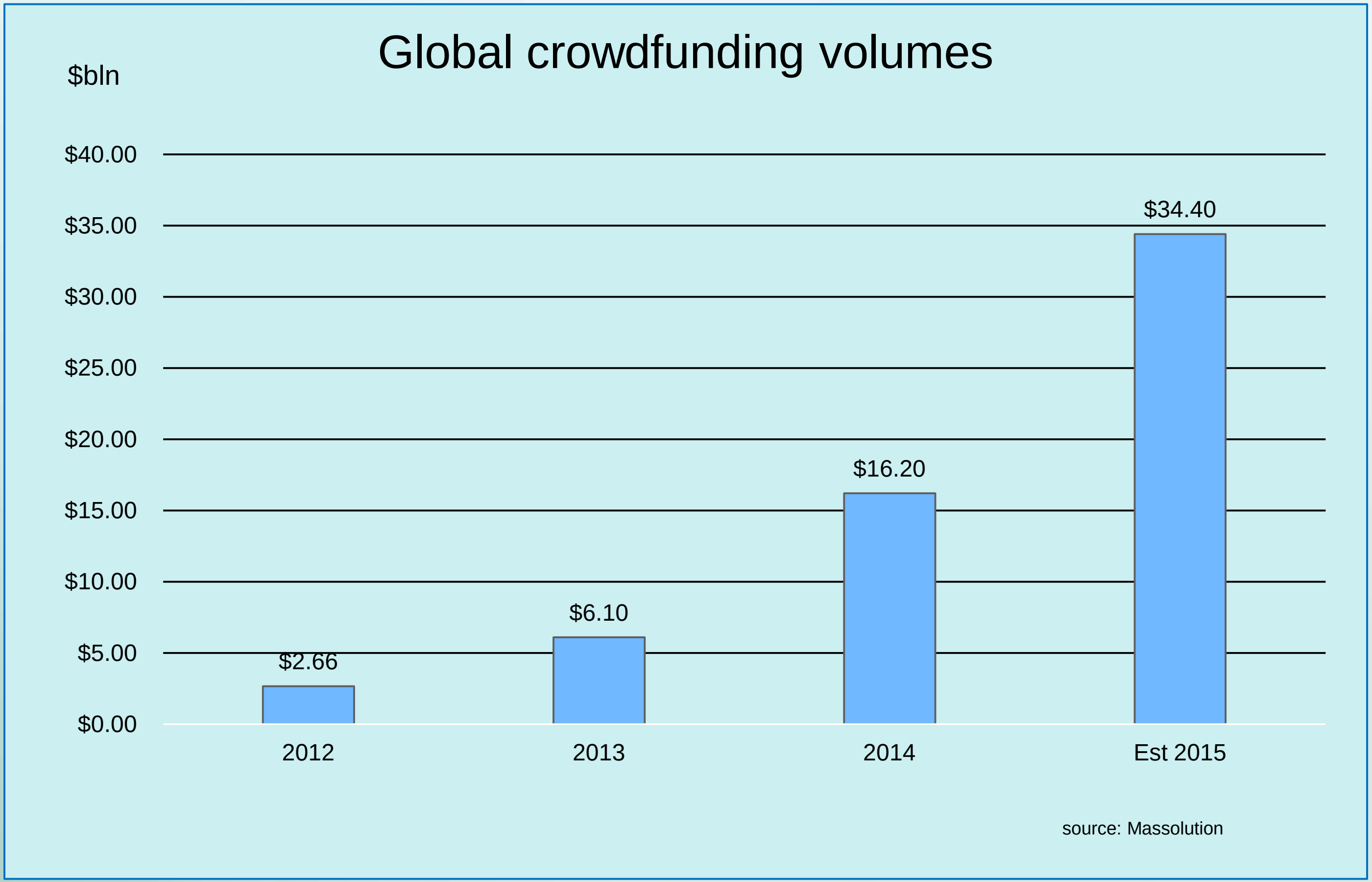
Issuer	Outstanding Amount (USD Billion)	%
Government	3,743	62
Financial Institutions	1,345	23
Non-Financial Institutions	915	15

- Listing and compliance costs are likely to be the main deterrent factors for issuing debt securities

Online trading platform provides attractive venture of corporate debt securities

- Euronxt has announced plans to promote the issuance of corporate bonds by SMEs via its Alternext Capital Markets Platform. Several regional stock exchanges in Germany have launched SMEs debt platforms
- There is a new movement for creating an SME bond market in Korea and China. For example, a qualified institutional buyer (QIB) system was established for SME bond trading in Korea in 2012
- The price transparency and the ease of exit created by tradable debt makes corporate debts offer more attractive investments for venture capitalists

Size and growth of crowdfunding



Opportunities of crowdfunding

- **Alternative way to fund a venture. More entrepreneurs see it as an alternative to bank loans**
- **Deeper relationship with investors. Good marketing tool to raise the profile of the firm and to pre-sell the products**
- **Valuable feedback and ideas from the crowdfunding investors**

Crowdfunding is a valuable tool for both individual and institutional investors through:

Efficiency	**Access to data information speed up and simplifies decision making**
Transparency	**Open data and decision making comes greater transparency**
Market validation	**Institutional investors to act as lead investors or co-investors**

What is the impact of crowdfunding on financial intermediaries?

Part III

Ideas for the development of market-based financing

- Minimizing regulatory barriers to innovation such as P_2P lending which provides alternative capital funding source
- Relieving compliance burden on new entrants
- Establishing multi-tiered equity and debt markets for companies of varying size
- Tailored listing requirements be introduced for dedicated equity and debt markets
- Encourage institutional investor demand by improving liquidity for both equity and debt markets

The challenge is to harness new technology and business ideas in order to meet the customers' needs and interests.