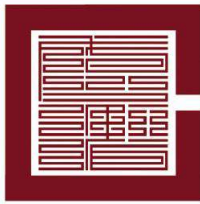


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CENTILLION

Myanmar: Towards Regional Capital Markets Integration

With the Myanmar Government planning to launch the new Yangon Securities Exchange (**YSE**) in 2015, much has been written about the merit and timing of this enterprise given the host of other infrastructural and other challenges facing Myanmar as it continues to emerge from decades of isolation.

However, in a clear demonstration of its ambitions for YSE, Myanmar has recently embraced further integration within the region's capital markets landscape by expressing an interest in signing up to the recently inked Memorandum of Understanding on Cooperation and Development of Capital Markets in the Mekong Sub-region (**MOU**). The MOU marks the formalisation of an on-going initiative that started at the first Mekong Capital Markets Cooperation (**MCMC**) conference in 2013.

MCMC Background

The inaugural MCMC conference was convened with 2 primary objectives:

- to evaluate the challenges faced by the region's capital markets; and
- to consider how to further integrate the bourses of the MCMC member states.

MCMC conference attendees consisted of (and continue to be) financial market regulators, policy makers and leading business executives from the member states, namely - Vietnam, Cambodia, Laos, Myanmar and Thailand. The outcome of the initial conference laid the groundwork for future regional capital markets development through three measures:

- **MOU:** drafting and signing the MOU (to formalise the agreed objectives);
- **Policy:** a collective agreement to use future MCMC conferences as a forum for policy discussions (which will now be held on a rotating basis every two years); and
- **Database:** the establishment of a shared regional database containing key capital markets information.

Potential Challenges For YSE

When YSE opens it will become the youngest securities exchange in the region. Accordingly, YSE will likely face similar challenges to those experienced by other nascent exchanges in the region (notably the Cambodian Stock Exchange (**CSX**) (launched in July 2011) and the Laos Securities Exchange (**LSX**) (launched in January 2011). These have been:

1. a focus on short term rather than long term investment strategies ;
2. frontier market volatility;
3. a small number of listed companies; and
4. transparency.

In addition commentators have highlighted a fifth challenge particular to Myanmar in that the existing telecommunications network in Myanmar is unable to sustain a competitive nationwide exchange.

We would argue that a sixth and significant challenge is the competition YSE will face from other international bourses beyond the MCMC member countries both within SE Asia and further afield.



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MOU Benefits

Although Myanmar has been a participant in the preceding MCMC conferences, joining the MOU will help bind Myanmar to the principles and institutions that have been (and will be) established through the MCMC. The identification of problems and proposed solutions in the third MCMC conference is a strong indicator that the member states are already benefiting from this forum. The outcome of the third MCMC conference should directly assist YSE in its early operations through:

- the establishment of an Institute of Directors across the MCMC member countries that will focus on the promotion of financial literacy, the elevation of corporate governance and the facilitation of cross-border investment and fundraising;
- a mutual recognition of regulatory standards and practices; and
- the development of a common collective investment scheme.

Thereafter, as YSE matures it should continue to benefit from the experiences of other MCMC members in a number of other ways including:

- instituting effective measures for sustainable capital market growth (to offset and help prevent any future potential economic bubbles such as those seen in the recent past in Thailand and, Vietnam);
- developing mechanisms to effectively compensate for any effect the remaining sanctions against Myanmar may have on its capital market (something the Thais in particular have grappled with periodically); and
- establishing how to best harness and transform Myanmar citizens into investors (through investor education and potentially benefitting from the Thai SEC's initiative to develop a "start to invest" mobile application – both the Thais and the Vietnamese have identified macro level investor education as the next step in this process).

Next Steps For YSE

Becoming a party to the MOU is an astute move for Myanmar and the successful launch and future development of YSE. It will allow YSE to harness the collective knowledge and experience of its regional neighbours through the MCMC conferences. In addition, Nay Pyi Taw has also recognised and embraced the need for high quality expertise if YSE is to succeed and has engaged a team of international advisers including Daiwa Securities Group and Japan Exchange Group to help establish YSE and the related capital markets infrastructure.

So as YSE's launch looms large on the horizon, how well is Myanmar doing in addressing the challenges identified above? And how will the MCMC help in this?

- **Short Termism:** At the domestic retail level investor education will be a key component in meeting this challenge. The MCMC has already made clear statements that investor education is high on the agenda and the proposed Institute of Directors (**IOD**) could prove a valuable channel for this. Further, the sooner Myanmar can get foreign investors to invest in YSE stocks the better as one would expect them to be more sophisticated and hence less likely to react to short term trading shocks. The MCMC's proposed mutual recognition of rules and collective investment fund both augur well in this regard.
- **Emerging Market Volatility:** As things stand, Myanmar will remain an emerging market for some time to come and the best it can do to mitigate the effects of this fact on YSE and its population of listed companies is to continue to reform and modernise its social, political and economic infrastructure in an orderly and transparent manner so as to build and maintain investor confidence.



- **Small Number of Listed Companies:** In an effort to mitigate this challenge, which has significantly hampered the early development of CSX and LSX (which launched with zero and two initial listings respectively), YSE plans to launch with a minimum of 5 companies. This will be a good start but the trick will be to ensure a pipeline of further IPOs so that momentum is maintained, critical mass is achieved and investors are afforded credible opportunities for portfolio diversification. A series of companies in Myanmar are already preparing themselves to launch on YSE (eg Mapco - Myanmar's first public agricultural company).
- **Transparency:** How well transparency concerns are addressed will depend on both the specific YSE rules and the behaviours of market participants. The independence and credibility of the capital markets regulator will also be a key factor. In addition the MCMC's proposed IOD will aim to promote corporate governance which can only help.
- **Inadequate Telecommunications:** In recognition of the criticality of a well-developed telecommunications network to almost all aspects of its future economic development, Myanmar prioritised the telecoms licencing process ahead of a number of other key reforms. Licences were awarded to Norway's Telenor and Qatar's Ooredoo in February 2014 (with a combined infrastructure investment pledge of USD16 billion over the next 15 years). Since licence issuance the companies have progressed quickly, having already launched a high speed internet service to a few major cities with a further expansion extending the service to over 68 urban centres scheduled for later this month. As such, it would seem that this may not be as big an issue for YSE as was initially thought.
- **Competition:** With globalisation, the world's capital markets are increasingly competing with each other for issuer business. This phenomena has been around for a while but what used to be a fight for large MNC listings has percolated down to the mid cap sector and (in some cases) beyond. It will be interesting to see how YSE reacts post launch if Burmese companies look to list overseas. In the short term, this is almost certainly going to happen as uncertainty over the mid to long term situation in Myanmar may encourage business owners to push wealth offshore as a protective mechanism – with Singapore's SGX currently the apparent destination of choice. That said, Thailand is trying to position itself as the international gateway to the MCMC membership and is due to launch a dual listing regime as part of this strategy.

Conclusion

Myanmar is clearly going through a period of significant reform and development and is being courted by investors from across the globe. With so much opportunity both in terms of addressing short term basic necessities and exploiting the longer term appetite of a growing consumer population Nay Pyi Taw will be keen to harness as much capital as it can. Provided the Myanmar Government is encouraging and supportive then foreign capital will likely find its way into Myanmar with or without YSE. However, YSE can play an important role in aggregating and mobilising domestic capital. If YSE can successfully sidestep the growing pains that its neighbour's exchanges are currently experiencing then it will be well positioned to do so. Participation in the MCMC is a positive move but as can be seen there is plenty more to be done.



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