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CAPITAL RAISING

amidst structural challenges in the economy

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ISSUE 06 - JUNE 2023



"The global capital markets faced a tough year in 2022 and will most likely remain challenging throughout 2023 as we still recover from the adverse effects of the pandemic compounded by the pervasive impact of geopolitical developments that have contributed to the high interest, high inflation environment we are in."

Priorities of investors and preferences of consumers continue to evolve at a rapid pace in part due also to the growing emphasis on ESG and sustainability concerns. We have also seen the emergence of new technologies that are expected to heighten furthermore the level of disruptions.

Southeast Asia's strong fundamentals are a key driver for growth in capital formation. With a population of nearly 700 million, the combined GDP of ASEAN's 10 member countries reached US\$3 trillion in 2020. The region is now the world's fifth-largest economy and is projected to add 140 million new young consumers to the world by 2030, driving about US\$4 trillion of new consumption. Much of that also revolves around innovation as the majority of young people in Southeast Asia embrace digital lifestyles.

With this change in consumer direction, and with the markets still reeling from the aftermath of the collapse of FTX, Silicon Valley Bank, and Credit Suisse, how will capital raising evolve? As we know, as companies continue to recover from the pandemic and expand/explore new opportunities, they need fresh infusion of capital, be it through equity or debt.

Read the full President's Message [HERE](#) or watch the video [HERE](#).

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Vol 18 No 06

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PROFILE OF SPEAKERS

STEPHEN CUUNJIENG

Senior Adviser, PAG and former CEO & Chairman, Asia - Evercore

Mr. Stephen CuUnjieng is a renowned global investment banker. He has a strong track record in advising prominent companies, and leading initial public offerings, equity, debt and advisory transactions in the Philippines, Thailand, Indonesia and the wider APAC region. He has served as former Chairman & CEO of Evercore Asia; Vice Chairman, ASEAN of Macquarie Group; Managing Director at Merrill Lynch Asia Pacific; Director, Salomon Brothers Hong Kong Limited; Director and Investment Banking Head, Morgan Grenfell Asia, and Managing Director for PCI Capital.



Mr. CuUnjieng is currently Senior Adviser to PAG and is a member of the Executive Advisory Board for Asia of the Wharton School of Business. He is likewise an independent director in several corporations, among them, First Philippine Holdings Corporation, Philippine Bank of Communications, Century Properties Group, Phoenix Petroleum Philippines.

He graduated from Ateneo de Manila University and Ateneo School of Law, and completed a Master of Business Administration degree in Finance from the Wharton School of Business.

[WATCH THE VIDEO HERE](#)
<starting at 15:30>

Atty. Roel Refran and Mr. Stephen CuUnjieng, together with Ms. Malou Cristobal during the panel discussion and Q&A.

ATTY. ROEL A. REFRAN

Chief Operating Officer
Philippine Stock Exchange, Inc. (PSE)

Atty. Roel A. Refran is the Chief Operating Officer of The Philippine Stock Exchange, Inc. (PSE).

Atty. Refran is a CPA-lawyer who holds an MBA from Emory University's Goizueta Business School in the USA where he was a Fulbright scholar. He



worked as an associate at the Emory Center for Alternative Investments (ECAI) where he was immersed in alternative investment issues pertinent to private equity, hedge fund and venture capital.

Atty. Refran earned his Bachelor of Science in Business Administration and Accountancy (BSBAA) degree, magna cum laude, from the University of the Philippines in 1995, and his Juris Doctor (JD) degree (Second Honors) from the Ateneo Law School in 1999.

Atty. Refran is an Adjunct Faculty at the Asian Institute of Management (AIM). He is also a Professorial Lecturer at the University of the Philippines Virata School of Business.

He is the recipient of the Distinguished Alumni Award from the University of the Philippines in 2014.



LET'S TALK ABOUT CAPITAL MARKET



By: Santiago F. Dumlao, Jr., 1988 FINEX President

Yes, let's talk capital market. This is where long-term capital is raised by Issuers, companies that need funds to expand or enhance their business and profitability. They do this by issuing securities, typically and usually common stocks and bonds which promise some profit returns on such securities.

As counterparts to Issuers, we have Investors, institutions and individuals, who provide the funds by purchasing these securities, holding on to the promise that there will be some profits from their purchase, i.e., their return on investments.

Photo from Pinterest



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And between Issuers and Investors are the Intermediaries who provide the facilities to enable the movement of funds from Investors to Issuers, and of securities from Issuers to Investors, in an exchange of value. These intermediaries are the stock exchanges and bond exchanges; the dealers, brokers and salesmen; the underwriters and financial advisers; registry, settlement and depository houses; credit rating agencies.

This is the simplified big picture of the capital market. It serves a vital function of financing economic activities,

matching the demand and supply of long-term funds at a time today when our banking system is facing challenges of being trustworthy financial institutions – and the financing of our businesses has been so bank-financing dependent – the capital market as a major source of financing businesses has become an essential alternative.

If capital markets are such essential part of our economies, a natural question to ask is, what then is the state of our Philippine capital market? We shall sidestep answering this question for now, and just proceed to assure the reader: We do have a Capital Market Development Blueprint (CMD Blueprint) that describes in broad strokes but in specific time-bound programs and projects, the targets for advancing the capital market. The major capital market stakeholders have made commitments to do their part, which are identified programs and projects that are being monitored for their progress and fulfilment. These Commitment Holders, as we refer to them, include the government regulators: DOF, SEC, BSP, Insurance Commission, BTr. In the private sector we have the PSE, PDS/PDEx, BAP, IHAP, FINEX, FMA, PASBDI.

The current 3rd CMD Blueprint covering the period 2019-2025 was last updated in August 2021, and is now in the process of being updated to include new targets and new initiatives. In this series of articles, we shall first focus on some key issues which present themselves as the main problems confronting the capital market, circumstances that themselves identify the specific objectives to aim for in advancing the capital market development agenda.

The first key issue that easily presents itself for priority attention is: The Dearth of Securities Issuers and Securities Issues.

There are currently 286 listed stocks in the PSE. In the PDEx, there are just 195 listed corporate bonds by 53 issuers. There should be more.

The former Secretary of Finance has in fact remarked at a CMD Council meeting, half in mocking jest, then how can we call it a capital market when the market shares are owned in majority control by just a few dominating

LET'S TALK ABOUT CAPITAL MARKET

conglomerates? We could call them family business dynasties. Aboitiz; Ayala; San Miguel Corp./Ang; Sy/SM Group; Ty/Metrobank Group; Gokongwei/JG Summit Group; Metro Pacific/Pangilinan Group; Gotianun/Filinvest Group; Yuchengco Group; Villar companies; Lucio Tan Group; Alcantara companies; Lopez companies; Concepcion companies; Dennis Uy/Phoenix; Razon/ICTSI.

Indeed there is a need to generate more securities issues by more securities issuers. We could look at the list of top 1000 corporations and discover some good issuer candidates. There is a desire for greater investment options such as REITs, bank-issued bonds, securitized products, SME shares, LGU bonds, etc. These are samples of possible new investment opportunities. In particular, we single out the interesting suggestion of former Secretary Carlos Dominguez, to offer a portion of Landbank shares to the public. Some other profitable government-owned or controlled corporations could follow.

Also, with the renewed interest in PPP projects, the government could mandate that a portion of the financing be sourced from offering bonds or shares to the investing public to be able to partake of the profits from such (usually) infrastructure projects.

THE LACK OF LONG-TERM INVESTIBLE FUNDS.

The capital market is about long-term investments where long-term financing needs of corporates need to be matched by investors with long-term horizons. The supplier of funds would normally be Pension Funds which are managed for retirement purposes.

Unfortunately, the Philippines has a most inadequate pension system, embarrassingly ranked very low in a global comparison scale. This is widely acknowledged and recently has been shouted out in Congress by the chairman of its Ways and Means Committee. This is why the reform of our pension system is top priority in the CMDC agenda and the Blueprint.

Accordingly, the "Capital Market Development Act" has been proposed in Congress (H. No. 9343), has been deliberated upon, hearings conducted, and approved in May 2021, and sent to the Senate on June 2, 2021, where it was caught up



by the change of administration. It is now being deliberated upon by the Senate. It is instructive to quote a portion of its Declaration of Policy:

"The State also acknowledges that expanding the capital market necessitates the development of a wide institutional investor base that could best be achieved by adopting a robust pension fund system. The State recognizes that the current system has long been due for reform and as old age income support is now among the major social and economic challenges facing many nations, including the Philippines, it is imperative to institute the reforms in the country's retirement and pension system."

The passage of this House bill in its substantial form through the Senate, to become finally a law, is a cornerstone for our capital market development.

THE NEED TO EXPAND THE INDIVIDUAL INVESTOR BASE

PDEX reports that as of November 2022 the number of Investor Accounts consisted of 48,230 Institutional Investors holding the equivalent of Php 755 billion of debt paper investments; and 265,644 individual Investors holding the equivalent of Php 581 billion in investments.

Continue reading [HERE](#).

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