

Capital Market Development Council

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INSURANCE FORUM

The Capital Market Development Council (CMDC) is a public-private initiative with the objective of recommending policy and legislative reforms for the development of

the Philippine capital market. It therefore seeks “to identify impediments to the growth of the capital market”. Capital market has been defined as that “segment of the financial system that mobilizes and intermediates long-term funding without delimiting the sources of these funds.” It is also described as “the part of a financial system concerned with raising capital by dealing in shares, bonds, and other long-term investments”.

The CMDC was established in 1992 after a *Joint Manifesto* (Joint Manifesto Towards the Development of the Philippine Capital Market) was signed on November 15, 1991 by financial sector regulators, specifically the SEC and the Central Bank, the Department of Finance, and private sector organizations, specifically the Bankers Association of the Philippines, Financial Executives of the Philippines (FINEX), Investment House Association of the Philippines (IHAP) and the Manila and Makati Stock Exchanges. The insurance and pre-need sectors would join later. It received funding from the United States Agency for International Development (USAID) from 1994 to 2000.

As of 2016, the Council has three Co-Chairpersons, Eduardo V. Francisco, President of BDO Capital & Investment Corporation, Department of Finance (DOF) Secretary Carlos G. Dominguez, and Securities and Exchange Commission (SEC) Chairperson Teresita J. Herbosa. There are twelve (12) institutional members represented by their respective heads. In addition to the DOF and the SEC, the members are: the Bangko Sentral ng Pilipinas (Governor Amando M. Tetangco, Jr.); Bankers Association of the Philippines (BAP) (Nestor V. Tan); Philippine Stock Exchange (PSE) (Hans B. Sicat, President); Investment House Association of the Philippines (IHAP) (Manuel M. Tordesillas, President); the Philippine Life Insurance Association (PLIA); the Philippine Federation of Pre-Need Companies; Philippine Insurers and Reinsurers Association (PIRA) (Augusto P. Hidalgo, Chairman); Philippine Dealing System Holdings Corp. (PDS) (Cesar B. Crisol, President); Philippine Association of Securities Brokers and Dealers, Inc. (PASBDI) (Ismael G. Cruz, President); and the Insurance

Commission (Atty. Dennis B. Funa, Commissioner). Its every day affairs is run by an Executive Director.

Capital Market Development

The importance of the capital market was explained by BSP Governor Rafael Buenaventura when he stated: “the ultimate stakeholder of capital market development is of course our economy. The economic literature has always emphasized that limited access to capital presents a critical challenge to economic growth and stability. It is therefore imperative to establish a well-functioning domestic capital market to ensure that corporations efficiently mobilize capital for economic growth.” This echoes the first preamble of the CMDC *Joint Manifesto* that “the development of our economy requires readily available and more stable medium and long term funds to finance the capital requirements of productive enterprises which provide goods for local and export markets, create jobs and increase incomes.”

The Philippine capital market development has been assisted by three international funding agencies, namely: The Asian Development Bank (ADB), the World Bank, and the United States Agency for International Development (USAID). The programs of these three were eventually coordinated with the Philippine government.

The USAID funded a study of the Philippine capital market as early as 1985. In 1987 it designed a \$13.6 million Financial Resources Mobilization Project for the capital market. In 1993, USAID started the 5-year \$13.5 million Capital Market Development project. Its support for the public sector centered on the improvement of the Securities and Exchange Commission (SEC), while the support for the private sector was coursed through the Financial Executives Institute of the Philippines (FINEX).

The need for capital market reforms was realized when “other regional stock exchanges were overtaking the Philippines in turnover volume, market capitalization, and quality standards”.

The restructuring and regulatory improvement of the SEC was a major goal towards improving the capital market. A revision of its approach to regulation led to the abandonment of the “merit regulation” and the adoption of the disclosure-based regulation where “an issuer of securities is required to make certain specific public disclosures before selling its securities”. The SEC was also revamped and its filing system computerized.

In the private sector, the FINEX projects that gained support were the establishment of a privately-owned investor information service, the creation of a financial training institution, and the creation of the Philippine Central Depository, Inc.

Eventually, a public-private committee, led by FINEX and the Department of Finance, was created to oversee the restructuring and the management of the country’s financial market – the Capital Market Development Committee.

Among the achievements in the development of the capital market is the consolidation of the Manila and the Makati Stock Exchange, leading to the creation of the Philippine Stock Exchange (PSE) in December 23, 1992. The Manila Stock Exchange was

established in August 12, 1927 dominated by trading in gold and copper mining stocks. The Makati Stock Exchange was established in May 15, 1963. Both traded the same stocks of the same companies. In June 1998, the SEC granted the PSE a “self-regulatory organization” status allowing the PSE to regulate its own members under the oversight authority of the SEC. The PSE maintains two trading floors.

Other legislations for capital market development were passed into laws, among these were: the Securities Regulation Code, the Personal Equity Retirement Account (PERA) law, the Credit Information System Act (CISA), and the passage of the Financial Rehabilitation and Insolvency Act (FRIA).

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