

Capital Market Masterplan – A Summary

1. Introduction

1.1 What is the CMP?

The CMP is a comprehensive plan mapping the direction of the Malaysian capital market over the next 10 years. Hence the CMP is intended to ensure that the capital market is well positioned to support national economic growth and to meet future challenges from regional competition and globalisation.

It articulates the vision, objectives and strategic initiatives for the Malaysian capital market to successfully meet future challenges.

The CMP sets out 152 detailed recommendations to achieve its objectives and outlines the framework for their implementation.

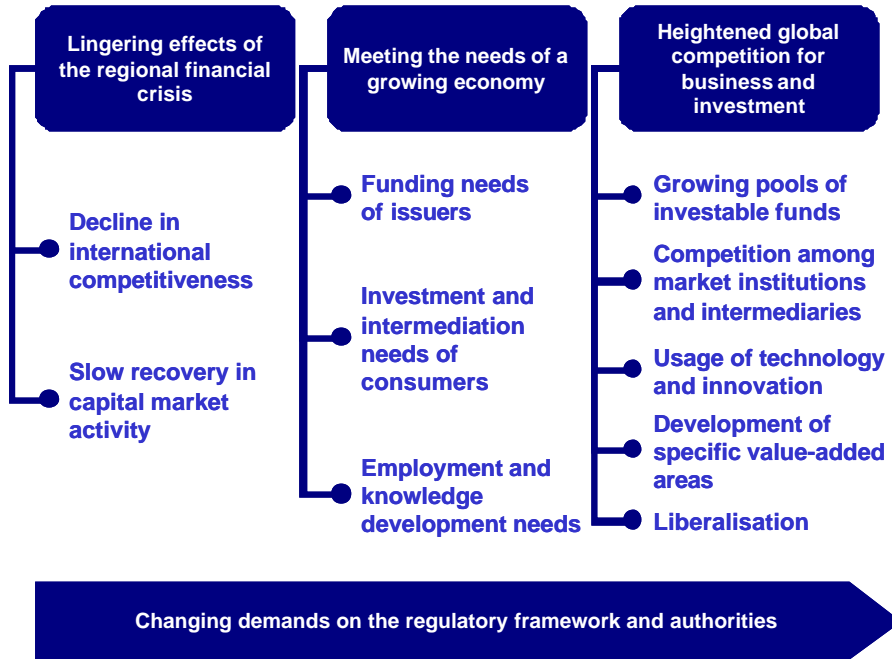
1.2 How did the CMP come about?

In formulating the CMP, extensive consultations were held with a wide range of market participants, ministries, agencies, academics and independent consultants to ensure that the views of all participants were incorporated in the CMP blueprint. This task was entrusted to the Capital Market Strategic Committee (CMSC), which comprised representatives from the Securities Commission (SC) and highly experienced local and foreign professionals from the capital market. The SC Chairman was appointed by the Minister of Finance to chair the CMSC. In addition, independent consultants were also engaged to assist in the exercise. The CMP was presented to the Government in October 2000 and was officially released by the SC in February 2001.

2. Challenges for the Malaysian Capital Market

2.1 Key challenges

Challenges for the Malaysian Capital Market



Lingering effects of the regional financial crisis

The regional financial crisis in 1997 had a significant adverse impact on the performance of the Malaysian economy and its capital market. Due to decisive action by the government and its financial regulators, the health of the economy and capital markets have been substantially, albeit not fully, restored. The lingering effects from the crisis still remain and foreign participation in the Malaysian capital market has also not yet fully recovered. These developments underline the need for appropriate measures to be taken to ensure that it does not unduly affect the longer-term growth prospects of the Malaysian capital market.

Meeting the needs of a growing economy

The capital market's ability to attract investment flows remains important to achieving strong and sustainable economic growth.

As the market matures it will become increasingly important to actively ensure an efficient and cost-effective environment for both issuers and investors alike. A stronger and more diversified fund-raising environment is required to safeguard the economy against external shocks.

From a broader perspective, there is a need to increase value-added by promoting the growth of knowledge-based industries so that the country can continue on a sustainable growth track within an increasingly dynamic global marketplace. The development of the market for risk capital and the creation of a facilitative environment for high-growth companies is needed to ensure a strong innovation base within the country.

Heightened global competition for business and investment

The pools of global investable funds are expected to grow as investors increasingly look outside their home countries for investment opportunities. Technological advances are increasing pressures on exchanges to compete for these global funds by attracting listings, particularly those of high-growth and high-quality firms.

Market institutions are responding by merging and establishing alliances. They are increasingly offering consumers greater variety and flexibility, such as through extended product ranges and online trading.

Market intermediaries are also facing greater competition. Some regional markets now even allow full foreign ownership to encourage the development of high-calibre finance professionals and to build a critical mass of players and activity in these markets.

The recent trend towards deregulation has resulted in lowering transaction costs and an increase in providing customers with added value and convenience in other countries. The creation of large global financial conglomerates and technological innovation by new entrants present increasingly significant challenges for capital market intermediaries in Malaysia.

Changing demands on the regulatory framework and authorities

Regulators who oversee the financial markets need to take into account the increasing complexity and interdependence of financial activity at both the national and international levels. These changes require a shift in traditional regulatory approaches away from prescriptive rules to a more market-based approach.

2.2 Addressing these challenges – major focus areas

Enhancing the value proposition for Malaysian issuers

The process of raising funds through each of these markets must be efficient and competitive. The domestic capital market must be able to respond quickly and effectively to global competition. Issuers within the Malaysian capital market must derive value recognition and the breadth of markets and funding instruments must be further developed.

Improving the role of the capital market in meeting investors' preferences

High standards of corporate governance must be practised. The investment management industry must be robust and dynamic. The range of products must meet a more diverse range of investor preferences and requirements.

Developing internationally competitive market institutions and intermediaries

Malaysia needs stronger market institutions to compete effectively with other regional and international exchanges. Capital market intermediation must be efficient and innovative. Corporate finance advisory services must be highly responsive to the needs of the corporate sector.

Ensuring effectiveness of the regulation within the changing market environment

The regulatory framework must be able to adapt to a fast-changing market environment. Enforcement capabilities must keep in step with the increasing complexity of financial markets. As the financial market becomes increasingly integrated, the maintenance of market-wide systemic stability is becoming an increasingly important objective for capital market regulators.

Promoting value-added areas aligned with Malaysia's comparative and competitive advantage

For Malaysia, one key market where it might have a competitive advantage is the Islamic capital market. The trading of Islamic securities have grown strongly in recent years. Thanks to extensive promotional efforts by the SC, there is increasing awareness and growing acceptance of Islamic products, The potential market for Islamic capital markets products is huge and should be tapped.

3 Strategy to meet these challenges

It is envisaged that Malaysia will develop a capital market that is internationally competitive, highly efficient, innovative and productive. It must provide Malaysian investors and issuers with a wide range of products and services comparable with the leading financial centres in the world. At the same time, Malaysia must also continue to strongly develop the depth and breadth of all segments and services offered within the capital market, and develop internationally competitive advantages.

Six key objectives have been identified that form the basis for the CMP's main strategic initiatives and specific recommendations. These objectives are:

- To be the preferred fund-raising centre for Malaysian companies
- To promote an effective investment management industry and a more conducive environment for investors
- To enhance the competitive position and efficiency of market institutions
- To develop a strong and competitive environment for intermediation services
- To ensure a stronger and more facilitative regulatory regime
- To establish Malaysia as an international Islamic capital market centre

To be the preferred fund-raising centre for Malaysian companies

The Malaysian capital market must offer issuers the ability to raise funds through a variety of instruments commensurate with their maturities and risk profiles.

Initiatives have been formulated to ensure that the overall process of raising funds is efficient and competitive. Measures will be taken to promote breadth in product markets and instruments to satisfy the maturity and risk profiles of issuers. There will be appropriate efforts directed at ensuring that there is sufficient depth in terms of liquidity and efficiency in the secondary markets for issued securities.

To promote an effective investment management industry and a more conducive environment for investors

The investment management industry must be capable of meeting consumer demands for greater efficiency, diversity and cost-effectiveness in the management of their funds. More generally, the enhanced involvement of institutional investors is important.

At the same time, the investing community must have strong confidence in the quality of companies they invest in. Corporate accountability is a key consideration. The quality of mechanisms for corporate governance is vital to investor confidence. It is crucial that timely and accurate disclosure and high standards of financial reporting are available for investors to make informed investment decisions. A culture of shareholder activism is necessary to complement efforts to enhance the capacity of the regulatory framework to enforce minority shareholders' rights, and to ensure companies exercise greater emphasis for maximising shareholder value.

To enhance the competitive position and efficiency of market institutions

Market institutions in Malaysia need to be able to adapt promptly and appropriately to external competitive pressures, as well as to the changing needs and demands of their customers. This means that their business models must be fully aligned with the evolving financial landscape. More fundamentally, they must provide investors with a liquid, efficient, secure and transparent trading environment at competitive costs.

This will require appropriate restructuring to tap economies of scale, strengthening the integrity of the market by raising the standards of corporate disclosure and market surveillance. In short, market institutions must redefine their value proposition.

To develop a strong and competitive environment for intermediation services

Domestic capital market intermediaries must be able to offer internationally competitive services to their customers. They need to be able to respond effectively to the impact of changing consumer demands, technological developments and the increasing integration of financial services.

In view of this, constructive competition is required in the Malaysian capital market intermediation industry. This includes allowing a more comprehensive range of services and products to be offered by capital market intermediaries. Measures will be taken to progressively deregulate the pricing structures to ensure users of the Malaysian capital market are able to access world-class services at reasonable cost.

To strengthen the domestic broking industry ahead of future liberalisation, efforts to consolidate the industry and develop strong full-service brokers will be expedited. The creation of one-stop capital market intermediaries promotes a substantially more competitive market to the consumers' benefit. Prudential standards, levels of business conduct and quality of professional skills within the intermediation industry remain important priorities.

To ensure a stronger and more facilitative regulatory regime

Significant steps have been made to improve the regulatory framework since the establishment of the SC in 1993. It is imperative that continuous efforts be directed towards strengthening and enhancing the regulatory framework in line with the overall capital market's development.

Therefore, several key strategic initiatives have been identified to ensure the gradual implementation of market-based regulation across the capital market, regulatory parity and consistency for capital market participants, strengthening enforcement activity and enhancing systemic risk management.

The gradual adoption of a market-based system of regulation represents the greater use of competitive market disciplines and processes, with minimum direct regulatory intervention, to achieve regulatory objectives. At the same time, enhanced disclosure and transparency, as well as greater regulatory accountability and dialogue, will be emphasised. Such a framework will allow for greater flexibility, innovation and competition where needed, while maintaining mechanisms to ensure high standards of investor protection and market integrity.

In addition, regulatory parity and consistency of treatment between all institutions and participants offering similar capital market services and products is necessary to ensure a level playing field for all participants, effective investor protection, and the prevention of regulatory arbitrage.

Strong and effective enforcement of the regulations governing the capital market is important to ensure that public confidence in the integrity of the market is preserved at all times, and

that systemic stability is not compromised. To complement these efforts, an explicit systemic risk management framework will provide a co-ordinated and systematic approach to strengthening the market's capacity to withstand systemic disruption.

Underlying all these initiatives, investor protection remains a priority. There will be continued efforts to promote investor education and enhance investor empowerment. Further efforts will also be directed at improving disclosure and transparency, and to improve the standards of business conduct of market participants and regulated entities.

To establish Malaysia as an international Islamic capital market centre

Malaysia is well positioned to be an international Islamic capital market centre. It already has an established market infrastructure and a lead over the other relatively nascent Islamic capital markets.

Malaysia's Islamic capital market would benefit from a comprehensive strategic programme to further enhance its international competitive position.

The initial focus will be on the development of a wider range of competitive products and services related to Islamic securities. To do this, efforts will be directed to enhancing liquidity to create a viable market for the effective mobilisation of Islamic funds. In addition, comprehensive efforts will be made to ensure that there is an appropriate and comprehensive accounting, tax and regulatory framework for the Islamic capital market. There will also be additional measures to promote the profile of the Malaysian Islamic capital market and enhance the value recognition of the Malaysian Islamic capital market internationally.

4 Implementation of the Recommendations of the CMP

4.1 Phases in the implementation of the recommendations

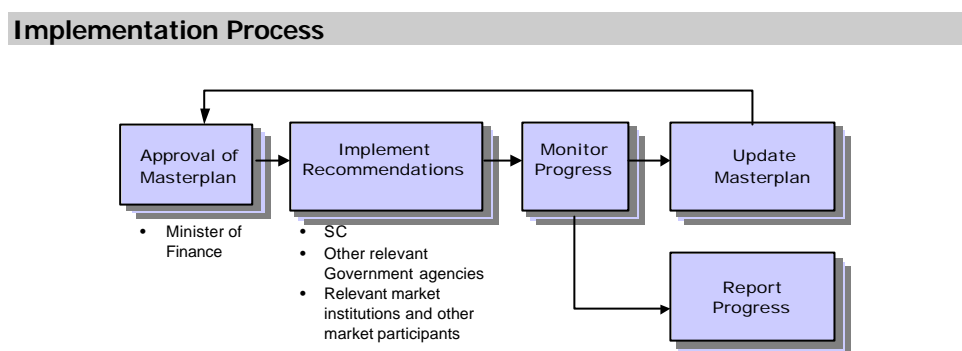
The CMP can be characterised into three distinct phases.

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Strengthen domestic capacity, and develop strategic and nascent sectors									
			Further strengthen key sectors and gradually liberalise market access						
					Further expansion and strengthening of market processes and infrastructure towards becoming a fully-developed capital market, and enhancing international positioning in areas of comparative and competitive advantage				
Phase 1			Phase 2		Phase 3				

The implementation framework provides the schedule of implementation for the recommendations, and identifies priority areas that will benefit most from early action. More specifically, the framework:

- Prescribes a mechanism for co-ordinating the implementation of the CMP's recommendations, which addresses issues relating to the implementation process, structure and phasing, and outlines the roles and responsibilities of parties involved;
- Highlights the skills, capacity and resources required for implementation;
- Suggests guidelines for regular performance monitoring and progress reporting; and
- Describes the sustained efforts required for change management and public communication to publicise the CMP.

The following figure sets out the approach to implementing the recommendations.



The overall progress of the implementation process is closely monitored by the SC, to ensure that the recommendations are implemented and reviewed on a timely and efficient basis.

An Implementation Task Force established by the SC co-ordinates the implementation of recommendations. Responsibility for the operational implementation of various recommendations is largely delegated to Working Committees comprising representatives from the relevant industry associations and other market participants from the private sector.

To ensure smooth and effective implementation, the SC appointed a Capital Market Advisory Council (CMAC) to provide independent views and timely advice. Fifteen highly experienced and prominent industry professionals and entrepreneurs were appointed to the CMAC.

In addition, the SC has formed a Capital Market Advisory Council — comprising highly experienced local and international professionals and prominent entrepreneurs — to provide independent views on the progress of implementation of the CMP and to advise on areas where it may be necessary to fine-tune the recommendations to reflect evolving market developments.