



# CapitalMARKET

## MASTERPLAN

M A L A Y S I A





Securities Commission  
No. 3 Persiaran Bukit Kiara  
Bukit Kiara  
50490 Kuala Lumpur  
Malaysia  
Tel: 03-62048000 Fax: 03-62011818  
Homepage: [www.sc.com.my](http://www.sc.com.my)

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# Executive Summary

The Capital Market Masterplan is intended to be a comprehensive plan charting the strategic positioning and future direction of the Malaysian capital market for the next 10 years. It seeks to provide market participants with strategic clarity as to the vision and objectives for the capital market amid the changing marketplace. It is also intended to ensure that the capital market is well positioned to play its part in supporting national growth needs and aspirations, as well as meeting the challenges of relevant externalities such as regional competition and increasing globalisation.

## BACKGROUND

Over the last decade, the Malaysian capital market has witnessed a significant amount of change and development, and has assumed a rapidly increasing role in the overall financial sector. Substantial efforts have also been made collectively and individually by the Securities Commission (SC), other relevant government authorities and market participants to actively foster the development of the market and its continued growth.

As an integral part and indicator of the nation's development, the capital market represents a vital part of the financial market infrastructure which, together with the banking sector, supports the economic growth of the country. The success of the Malaysian capital market contributes to the overall strength of the economy. A fair, efficient and liquid capital market facilitates the mobilisation and allocation of funds within the domestic economy, and acts as a gateway to Malaysia for global investors.

Nevertheless, the capital market faces significant challenges in entering the twenty-first century. The rapidly changing domestic and international environment has raised important imperatives for ensuring that Malaysians continue to have access to a fair, efficient and robust national securities market under these dynamic conditions. Thus, the need for providing strategic certainty and a clear blueprint for action for the Malaysian capital market to preserve and enhance its position and pivotal role in the domestic economy, and within the

Asia-Pacific region, was clear. Thus, as the recovery from the regional financial crisis of 1997–98 allowed efforts and resources to be redirected into further developing the capital market, serious consideration was accorded to the establishment of such a blueprint.

In view of these considerations, the mandate for the Masterplan was approved by the Minister of Finance, Y.B. Tun Daim Zainuddin, and jointly announced by the then Minister of Finance II, Y. Bhg. Dato' Mustapa Mohamed, and the Chairman of the SC, Encik Ali Abdul Kadir, during the closing of the Securities Commission Annual Dialogue in August 1999. The terms of reference for the Masterplan were to:

- Formulate a comprehensive vision and programme for the development of the Malaysian capital market going forward
- Formulate a framework for the orderly and effective sequencing of further deregulation and liberalisation
- Identify and map the direction for the strategic positioning of the Malaysian capital market both domestically and externally

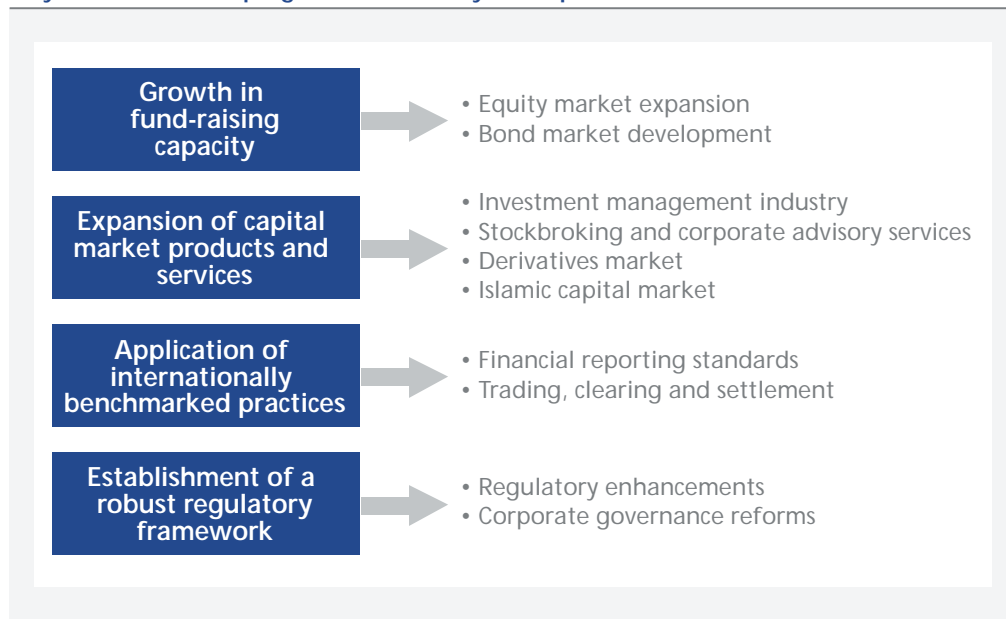
These terms of reference were formulated to guide efforts towards ensuring that Malaysia's capital market remains efficient, competitive, financially sound and responsive to global trends. The consolidated framework would need to be comprehensive enough to ensure the balanced development of each core component or sector in the overall capital market, and to facilitate the greater integration of different capital market services and products where appropriate. It would also need to address prevailing weaknesses in the capital market, and lay the groundwork for it to play an even stronger and more effective role in supporting further economic development.

With these principles in mind, the SC undertook a comprehensive review of all key segments of the capital market to analyse existing structural deficiencies and impediments. A process of extensive consultation subsequently took place involving a wide range of parties including various levels of government authorities, capital market participants and institutions, independent consultants, local and foreign experts, regulators and market participants, and the general public. This collective input, combined with the SC's own internal work and research, formed the basis for the development of a blueprint for the effective development and continued competitiveness of the Malaysian capital market.

## THE CHANGING FINANCIAL LANDSCAPE AND CHALLENGES FOR THE CAPITAL MARKET

The Malaysian capital market has experienced substantial progress over the past decade, particularly in key areas such as growth in fund-raising capacity; expansion of capital market products and services; adoption of many internationally benchmarked practices; and the development of a robust regulatory framework supporting the capital market (Figure 1). The combination of these factors, coupled with the country's strong economic fundamentals, comprehensive supporting infrastructure, presence of a pool of educated and talented professionals, and cost-competitive operational resources have all combined to create an attractive investment environment for investors. Despite the setbacks in the growth path experienced during the financial crisis of 1997–98, these strengths are still very present in Malaysia and represent cogent factors in favour of the future development of the capital market.

**Figure 1**  
Key elements of the progress of the Malaysian capital market

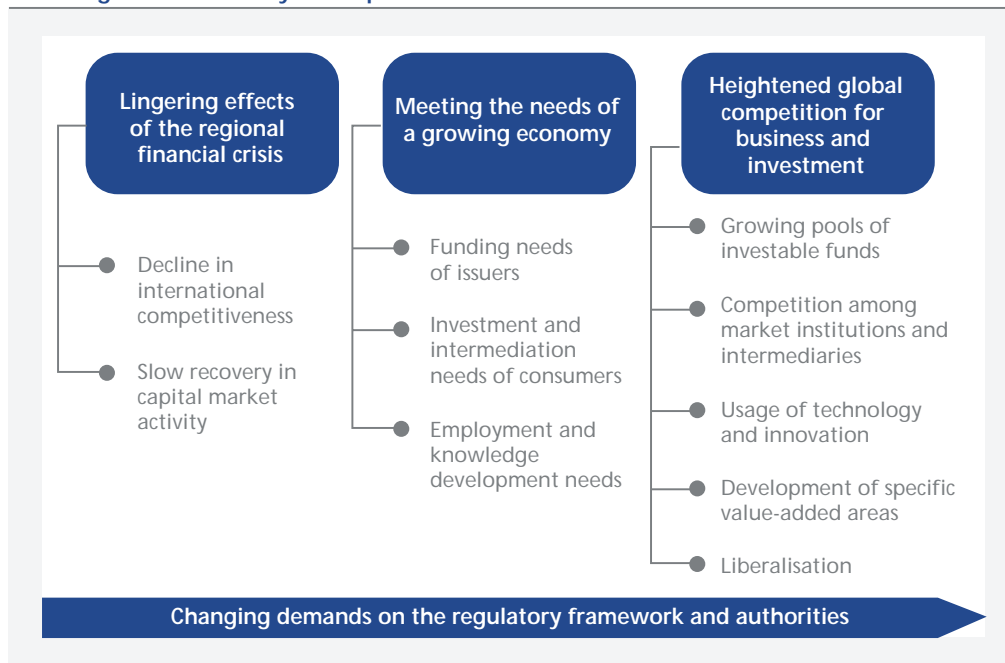


However, the Malaysian capital market is currently at the crossroads of change. Fundamentally, the needs of the growing economy and its constituents demand a comprehensive yet systematic approach towards the future development of the capital market and its components. In addition, new information technology, globalisation and demographic changes are also giving rise to new opportunities and challenges in the Malaysian capital market.

These challenges point to the need for both the authorities and the private sector to take the appropriate measures to effectively address the issues that are currently affecting or anticipated to affect the landscape of the capital market. In this regard, the key issues that Malaysia must address if its capital market is to not only sustain but also augment its role and effectiveness in the longer term are (Figure 2):

- Lingering effects of the regional financial crisis
- Meeting the needs of a growing economy
- Heightened global competition for business and investment
- Changing demands on the regulatory framework and authorities

**Figure 2**  
**Challenges for the Malaysian capital market**



## Lingering Effects of the Regional Financial Crisis

The onset of the regional financial crisis in 1997 had a significant adverse impact on the Malaysian economy and capital market that have since to a large extent, been addressed and stronger conditions restored.

Nevertheless, one lingering effect from the regional financial crisis has been the slow recovery of the capital market's regional and global competitive position. For one, the size and level of activity on Malaysian stock and derivatives exchanges have still to fully recover or realise sustained expansion following the

crisis. The performance of leading market indicators such as overall market capitalisation, for instance, still remain below pre-crisis levels. These developments, among others, point to the need for appropriate measures to ensure that the competitiveness of the Malaysian capital market is not unduly affected by the lingering effects of the regional financial crisis in moving forward.

## Meeting the Needs of a Growing Economy

The capital market's ability to attract investment flows has been an important factor in the successful development of market-based capital raising for Malaysian companies over the years. This has hinged upon a combination of features, including sufficient scale and liquidity, attractive valuations and an established legal and regulatory framework for such activity.

However, for a variety of reasons, maintaining many of these aspects has become an increasing challenge for Malaysia's markets as well as for many other relatively established capital markets. The need for a highly efficient and cost-effective environment for issuers and investors alike will become more critical as the Malaysian economy achieves an increasing level of sophistication and complexity, driven by new technology and the growing integration of the global economy in which it will continue to participate actively.

Meeting the funding needs of issuers is fundamental to the very existence of capital markets. Companies ultimately set the level of national productivity, and their ability to compete is inextricably linked with the quality of the national business environment and capital market development. In view of this, given even the basic funding needs of Malaysian companies in order to achieve a strong and sustainable rate of economic growth, it is expected that the country will have to spend significantly more on investment over the next 10 years compared to the previous decade. With Malaysia's own trade barriers gradually being relaxed further given its various multilateral trade liberalisation commitments, Malaysian businesses will also increasingly need to have access to the appropriate instruments and efficient services that allow for effective capital formation and risk management.

As such, the burden on the financial system in mobilising funds will be substantially greater than it has been during the course of Malaysia's industrialisation. While the existing institutions within the financial system have been able to adequately finance the needs of the rapidly growing economy so far,



the experience of the recent crisis points to the real danger of over-burdening the banking system with the responsibility for supporting production in the economy. A more diversified financial system is required to alleviate the banks of some of this task. In addition, the parallel development of all core segments of the financial market will facilitate the greater dispersion of risks through a larger breadth of market segments and participants, and put the economy in a better position to withstand external shocks.

It is also anticipated that economic growth will bring with it increasingly larger and more varied demands from consumers to meet their changing investment and intermediation needs and preferences. Within a growing economy such as Malaysia, in the longer term there will also be an increasing need for the capital market to provide more efficient returns on capital invested. At the same time, the lowering of transaction costs in many markets and increasing disintegration of barriers to cross-border investment are likely to prompt investors to seek further opportunities for investment in different markets and products, particularly those that offer superior value.

This means that the providers of services and products in the Malaysian capital market must be prepared to meet these changing needs and adapt to the added competitive pressures from external markets. This is no small challenge because while Malaysia continues to enjoy one of the highest savings rates in the world, the manner in which national savings are managed, in terms of their mobilisation and allocation, remains relatively centralised.

This situation has important implications for the future development of the domestic investment management industry. First, the concentration of funds within a small number of dominant institutions has, to some extent, curtailed the broadening and the extent of competition within the investment management industry. Second, in the longer term a more competitive and diversified investment management industry is needed to reduce overall concentration risk within the financial system, allow for excess funds to be directed to a broader range of investment choices, and facilitate greater liquidity in the overall capital market.

In tandem with increased demands on the investment management industry, the market for broking services in Malaysia needs to be further developed as well, as it plays an important role in the intermediation of consumers' investment transactions. In the past, however, barriers to entry have restricted the extent of

competition within the industry, while fixed brokerage commission rates have conserved their ability to remain relatively resistant to strong competitive pressures despite the changing market environment. Given these issues, the stockbroking industry as a whole faces challenges in developing sufficient capacity—both financially and in terms of breadth of services—to continue to serve their customers effectively and remain competitive amid further deregulation and liberalisation.

At the same time, the levels of professional expertise in the capital market need to be continuously upgraded and redeveloped if the overall capital market is to grow. However, for the Malaysian market to be able to garner a sufficiently large pool of highly skilled personnel to meet consumers' needs effectively, it needs to be able to offer them avenues for opportunities and rewards that are comparable to those offered elsewhere. This entails the availability of, among other things, appropriate incentives and the presence of employers that can offer them internationally competitive opportunities for development.

Moreover, the country will also need to consider the further development of value-added initiatives if it is to remain relevant and competitive within this increasingly dynamic environment. One important point in this respect is the need for the further promotion of the market for risk capital and a facilitative environment for high-growth companies, to help preserve a strong innovation base within the country. From a broader economic perspective, the capital market also contributes directly to national economic growth in terms of employment and tax revenues, and indirectly through facilitating greater knowledge development. Given the information- and technology-intensive nature of the capital market, it will be an important facilitator of development as the nation moves towards becoming a knowledge-based economy and with the increasing use of information and communications technology.

## **Heightened Global Competition for Business and Investment**

A key implication of globalisation for the capital market is that of heightened global competition for business amid the increased cross-border interaction and integration of markets and their participants. The emergence and expansion of market economies, the removal of trade barriers, greater cross-border interconnectivity, the spread of education and the impact of applied technology are all increasing the degree of integration of global financial markets and competition therein.

As global economies and their output grow, the pools of investable funds are also expanding significantly. Cross-border transactions are growing as investors are increasingly viewing international investment opportunities as part of their investment universe. Pension and mutual fund reform in many markets is also a key factor that potentially signals the continued increase in available funds looking for viable investments. Therefore, as pension systems in international markets develop and as global wealth increases, there will need to be increasingly more efficient channels through which this wealth can be invested.

With large issuers seeking greater liquidity and cost-effective access to new capital, exchanges are increasingly competing amongst each other to increase their market share, achieve economies of scale and offer alternate delivery channels and more flexible trading practices such as online trading, after-hours trading and cross-border trading. Because exchanges' primary sources of business comes from where there are existing pools of liquidity and high-quality investments, many are responding to these competitive pressures through a variety of measures. These include aggressively moving towards demutualisation and more commercially oriented business strategies, merging among themselves, and establishing alliances in order to position themselves more effectively in the global marketplace.

These developments pose significant challenges for Malaysian market institutions' role as the exchanges of choice for Malaysian issuers and investors in the future, given the global context in which market institutions have to operate and compete. For one, given the current size of the domestic market, the existence of multiple exchanges and their respective clearing houses as separate entities disperses the overall capacity, efficiency and marketing position of Malaysian market institutions in responding to these increasing challenges. While a degree of industry consolidation has already taken place, there is still scope for greater efficiency gains and alignment of their individual strategic interests, thus further reducing market segmentation. This would also solve some of the funding and market access problems currently faced by some of the smaller exchanges, which could then leverage on the broader membership base of the larger institutions.

At the same time, increased competition in the financial services industry, coupled with the deregulation of financial intermediation services in many jurisdictions over the years, has resulted in greater emphasis on lowering the costs of intermediation and greater customer-orientation through the quality and diversity of services rendered. Importantly, it has also prompted the rise of financial conglomerates that undertake a wider range of financial market services.

The creation of large international financial conglomerates through consolidations, alliances and individual expansion pose significant pressures for Malaysian capital market intermediaries. In terms of sheer size and influence alone, domestic intermediaries will need to significantly strengthen and diversify their services in preparing for heightened competition with their international counterparts. Smaller intermediaries will find it increasingly difficult to compete in an environment where competition is causing a narrowing of margins. At the same time, costs to the intermediaries in general are rising as a result of the increasing need to invest and upgrade into new technology.

Advances in technology and innovation are challenging existing market structures and institutions in many ways. New entrants are increasingly exploiting technology to achieve cost efficiencies and to create new distribution and transaction channels. Consumers of financial services increasingly have more options to bypass traditional forms of market intermediation. The rapid growth of online trading in the US, Germany, Korea and Taiwan, for example, attests to investors' growing use of this medium which allows them to play a more direct role in managing their financial portfolios. At the same time, market intermediaries are introducing newer and more innovative ways of producing and distributing financial products in order to retain their client base, as well as to gain the edge on potential market entrants.

Alternative trading systems in the form of electronic communications networks (ECNs), for one, have gained substantial attention in recent years, due to the potential implications they pose to future market structures. Indeed, the growth in activity handled by ECNs in the US has seen them handling a growing proportion of all National Association of Securities Dealers Automated Quotation (Nasdaq) trades in recent years. However, it should be noted that it is not clear at this stage whether ECNs offer uniform benefits to markets operating under different systems and circumstances, and questions remain as to whether such multiple markets can feasibly co-exist where there are smaller liquidity pools.

Nevertheless, to stay ahead of the curve many jurisdictions are already rapidly closing the digital gap through the judicious use of technology and innovation. In some cases, market participants have even used the development of technologically advanced market infrastructure itself as a source of competitive advantage, such as in the proposed initiatives of an integrated market "eFrastructure" in Hong Kong. These initiatives signal clearly the need for market participants to be continually alert to the challenges and opportunities posed by technological development.

This has been only one of the outcomes observed as markets move higher up the value chain, where they increasingly focus on specific areas that offer potentially greater value for the market as a whole, and those in which they can gain a competitive advantage. Other avenues through which some markets are positioning themselves are in the form of strategic alliances with other markets, and the increasing shift of exchanges from non-profit to profit-oriented concerns, to reduce costs and find new business opportunities through commercially focused strategies.

Another notable trend has been the rapid progression made by many countries to develop their venture capital industries. Exchanges are also competing aggressively to retain and enhance liquidity by attracting the best quality listings, particularly those in high-growth sectors such as technology and biopharmaceutical sectors. Other less ubiquitous niche markets are being explored by many jurisdictions as well. In most cases, the area of specialisation is one where the market of origin already possesses the basic building blocks and natural advantage to be an internationally competitive player, such as those with Islamic financial systems or existing critical mass in niche sectors of the economy such as natural resources.

At the same time, many countries are building their financial services sectors by enacting strategic liberalisation policies to attract more foreign institutions and professionals to boost competition, development, liquidity and human capital in their capital markets. In particular, the competition for human capital among global markets means that individual markets must address the issue of mitigating “brain drain” to other markets, while at the same time attracting highly skilled citizens working in other countries back into the domestic market.

These issues are reflective of global trends that will have to be taken into account by Malaysian capital market participants. Inaction may result in increasing cause for issuers and investors to shift to other markets that offer more attractive value propositions, particularly for blue-chip and high-growth firms. Malaysian market institutions and intermediaries must not only recognise the challenges of globalisation they will have to face, but also prepare themselves accordingly to take advantage of it in order to remain internationally competitive and continue to fulfil their respective roles within the domestic economy effectively.

## Changing Demands on the Regulatory Framework and Authorities

Financial activity at both the national and international level has become increasingly complex and dynamic. National financial systems are becoming more and more interdependent, with different asset markets becoming increasingly integrated. This evolving landscape has resulted in a blurring of distinctions between institutional arrangements and financial activities. As a result, the changing demands on the regulatory framework and authorities are compelling a shift in traditional regulatory approaches away from prescriptive rules to a more market-based approach, in order to promote an environment that fosters innovation and competition. Such an approach would also allow market participants to be able to react swiftly and respond appropriately to changes in the marketplace.

At the same time, the growing integration of financial intermediaries' functions is challenging the ability and capacity of regulatory authorities to ensure seamless regulation. For the Malaysian capital market, as financial modernisation increases and financial market intermediaries become increasingly less open to easy classification and interpretation, whereby they engage in comparable functions and are characterised by similar risks, it is vital that the regulatory framework embodies the concept of regulatory parity.

The establishment of the SC in 1993 as the principal regulator for the capital market has, to some extent, laid the foundation for functional regulation of the financial market. However, given the changing role of intermediaries and professionals in the securities, banking, and insurance industries, and the increasing integration of services and products in these markets, a closer review of where regulatory gaps and overlaps still exist is needed.

In addition, where the increasing internationalisation of financial markets and their participants calls for greater international regulatory co-ordination and harmonisation, there will be greater impetus for regulators to co-operate and develop information-sharing networks as well as mechanisms to meet the regulatory demands of globalisation and the changing financial landscape.

## VISION AND STRATEGY FOR THE DEVELOPMENT OF THE MALAYSIAN CAPITAL MARKET

To meet these challenges and take advantage of new opportunities going forward, it is envisaged that Malaysia will develop a vibrant and dynamic capital market that is internationally competitive, bearing the hallmarks of high levels of efficiency, innovation and productivity. 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 the international positioning of select value-added areas of the capital market aligned with the country's comparative and competitive advantage.

Figure 3

Vision for the Malaysian capital market



The Malaysian capital market should be internationally competitive in all core areas necessary to support the country's basic capital and investment needs, as well as its longer-term economic objectives. It must also be a highly efficient conduit for the mobilisation and allocation of funds. Underpinning these characteristics should be a strong and facilitative regulatory framework that enables the capital market to perform its functions effectively and provides a high degree of confidence to its users.

This vision reflects an overarching aspiration that is intended to drive the development and strategic positioning of a vibrant and competitive Malaysian capital market, and lay a strong foundation for further growth. It is intended to represent and address both the current and longer-term needs of Malaysian companies, investors and intermediaries in the capital market. The approach taken strives to maintain the necessary balance between demands for expeditious yet sustainable development, to effectively meet the dual challenges of external competition and domestic consumer needs.

In order to achieve the vision, six key objectives have been identified to form the basis for the Masterplan's main strategic initiatives and specific recommendations. The first five objectives focus on the respective core areas of the capital market: issuers; investors; market institutions; market intermediaries; and the overall regulatory framework. The sixth objective focuses on an area of immediate comparative advantage that has been assessed to be an area where Malaysia bears substantial potential to occupy a leading international position. 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

The main thrusts of these objectives, as well as the strategic initiatives that follow from them, are outlined as follows.



# OBJECTIVES Strategic Initiatives

## 1

TO BE THE PREFERRED  
FUND-RAISING CENTRE  
FOR MALAYSIAN  
COMPANIES

- 1.1 Enhance the efficiency of the fund-raising process
- 1.2 Implement a comprehensive programme to develop the corporate bond market as a competitive source of financing
- 1.3 Facilitate the development of the venture capital industry to finance emerging high-growth companies
- 1.4 Foster a liquid and efficient market for the secondary trading of securities

## 2

TO PROMOTE AN  
EFFECTIVE INVESTMENT  
MANAGEMENT  
INDUSTRY AND A  
MORE CONDUCIVE  
ENVIRONMENT FOR  
INVESTORS

- 2.1 Develop a strong framework for corporate governance and shareholder value recognition
- 2.2 Heighten efforts to establish a vibrant and competitive investment management industry
- 2.3 Enhance the role of institutional investors in the provision and management of funds
- 2.4 Facilitate effective risk management by actively developing the derivatives industry
- 2.5 Facilitate the introduction of a broad range of capital market products catering to various risk-return profiles

## 3

TO ENHANCE THE  
COMPETITIVE POSITION  
AND EFFICIENCY OF  
MARKET INSTITUTIONS

- 3.1 Restructure Malaysian exchanges and clearing institutions to strengthen their efficiency and competitiveness
- 3.2 Ensure Malaysian exchanges are well positioned to respond to changing market dynamics through the adoption of flexible business structures and commercially oriented strategies
- 3.3 Enhance the efficiency of the trading, clearing and settlement infrastructure

# 4

TO DEVELOP A STRONG AND COMPETITIVE ENVIRONMENT FOR INTERMEDIATION SERVICES

- 4.1 Foster constructive competition through the deregulation of services, products and fixed fee structures
- 4.2 Develop strong full-service brokers to provide a competitive market for integrated financial services
- 4.3 Ensure Malaysian intermediation services are anchored on appropriate prudential standards, with high levels of business conduct and professional skills
- 4.4 Adopt a pragmatic programme for liberalisation, supported by appropriate safeguards

# 5

TO ENSURE A STRONGER AND MORE FACILITATIVE REGULATORY REGIME

- 5.1 Move towards a market-based system of regulation for capital market activities
- 5.2 Ensure regulatory parity and consistency between all institutions and participants conducting similar capital market activities
- 5.3 Ensure strong enforcement of the regulations governing the capital market
- 5.4 Enhance capacity for maintaining systemic and financial stability

# 6

TO ESTABLISH MALAYSIA AS AN INTERNATIONAL ISLAMIC CAPITAL MARKET CENTRE

- 6.1 Facilitate the development of a wide range of competitive products and services related to the Islamic capital market
- 6.2 Create a viable market for the effective mobilisation of Islamic funds
- 6.3 Ensure that there is an appropriate and comprehensive accounting, tax and regulatory framework for the Islamic capital market
- 6.4 Enhance the value recognition of the Malaysian Islamic capital market internationally

## 1

**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 respective maturity and risk profiles, and the overall process of raising funds must be efficient and competitive for issuers. As the nation moves forward in the new millennium, an efficient market for capital formation is anticipated to become even more significant in financing economic growth and in diversifying the sources of funds within the financial system. Companies must be able to raise money efficiently through the equity as well as the debt markets through corporate bonds. This includes risk capital funding in value-added sectors that are fundamental to Malaysia's progress towards a knowledge-based economy and developed nation status. In view of these issues, specific initiatives aimed at achieving this objective will focus particularly on further enhancing the efficiency of the fund-raising process and promoting greater breadth and depth across the range of fund-raising instruments in the capital market.

STRATEGIC

## 1.1

INITIATIVE

**Enhance the efficiency of the fund-raising process**

Malaysian companies must be able to access the Malaysian capital market on competitive terms compared with those offered by other markets. To this end, there will be consistent enhancement of the value propositions for firms in Malaysia seeking capital through the continuous upgrading of the efficiency of the fund-raising process, including:

- Shifting towards the disclosure-based regulation (DBR) system for securities issuance
- Lowering the regulatory costs of fund-raising by streamlining and expediting the issuance and approval processes, and facilitating efficient and innovative methods of fund-raising such as through shelf-registration schemes
- Facilitating competition in the corporate advisory industry and other services related to securities issues

- Encouraging the use of technology in the fund-raising process where applicable to take advantage of the greater reach, speed and efficiency that electronic platforms can offer

STRATEGIC

**1.2**

INITIATIVE

### **Implement a comprehensive programme to develop the corporate bond market as a competitive source of financing**

A robust domestic corporate bond market is essential in order to ensure a competitive source of long-term debt funding for issuers, provide a viable investment alternative for investors seeking fixed-income investment exposure, and promote greater diversification of the financial system. Actions to further develop the corporate bond market as a competitive source of financing vis-à-vis the banking and equity sectors will be undertaken through:

- Streamlining the bond issuance process and lowering its associated costs
- Encouraging secondary bond market activity through improved accessibility and efficiency of the bond trading infrastructure
- Promoting the development of a benchmark yield curve and the asset-backed securities market
- Collaborative efforts among the relevant regulatory agencies to facilitate the development of a liquid corporate bond market

STRATEGIC

**1.3**

INITIATIVE

### **Facilitate the development of the venture capital industry to finance emerging high-growth companies**

The venture capital industry constitutes an important segment of the market for risk capital, given its pivotal role in meeting the early financing needs of high-growth companies. This is particularly pertinent in view of the need to cultivate such businesses as an integral part of overall efforts towards becoming a knowledge-based economy and creating a more value-added production base. To ensure that the Malaysian capital market remains the preferred fund-raising centre for Malaysian high-growth businesses, therefore, efforts to further

facilitate the development of the venture capital industry as a competitive source of private risk capital funding will include:

- Promoting a deeper pool of private venture capital funds and related management expertise to facilitate the effective matching of the risk appetites of private equity investors with the risk profiles of emerging businesses
- Enhancing the efficiency and competitiveness of market-based exit mechanisms for venture capitalists, particularly in terms of cost, pricing efficiency and value realisation for issuers and venture capitalists
- Promoting a broader range of venture capital investment products in the capital market to allow for the greater participation of private investors in financing high-growth companies
- Actively supporting a co-ordinated approach to the development of the venture capital industry, to facilitate a conducive environment for emerging companies seeking funding

STRATEGIC

1.4

INITIATIVE

## Foster a liquid and efficient market for the secondary trading of securities

An active and efficient secondary market for issued securities facilitates the raising of capital by Malaysian companies at competitive prices. It enhances the value recognition for these issuers because of the presence of established pools of liquidity within the market itself, consequently raising the market's profile as the preferred trading centre for its domiciled securities and increasing the attractiveness of listing and investing in the Malaysian capital market. To foster greater liquidity and efficiency for the secondary trading of securities in the Malaysian capital market, measures will be taken to:

- Broaden the availability of intermediation services for the various segments of the capital market, including undertaking a programme for the deregulation and selective liberalisation of access to the trading of equities, bonds and related risk management instruments
- Promote the continuous enhancement of trading processes and market microstructure to facilitate greater efficiency and liquidity, particularly with regard to the secondary market for high-growth companies
- Ensure continued regulatory facilitation of the use of electronic media in enhancing market access, as well as in the promotion and distribution of securities products and services

## 2

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

The Malaysian capital market must have the continuous capacity to meet the changing needs of its investors. This necessitates an environment that allows for the effective mobilisation and investment of funds. In this regard, the issue of corporate accountability, including the manner in which companies manage their capital efficiently and uphold the interests of their shareholders, is vital for cultivating a conducive environment for investors. At the same time, the investment management industry must be equal to 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 given the strong role they play in supplying and managing large amounts of capital, and in providing liquidity in the market. In turn, the productive investment opportunities available to investors must be sufficient to meet the collective demands of investors across a broad spectrum of risk-return profiles and risk management needs.

STRATEGIC

## 2.1

INITIATIVE

### Develop a strong framework for corporate governance and shareholder value recognition

The Malaysian capital market must have a transparent, accountable and performance-oriented corporate sector that offers value-focused investment opportunities to investors. This calls for high levels of, and appropriate mechanisms for, active corporate governance and shareholder value maximisation. To this end, more active and effective corporate governance and shareholder value recognition will be promoted through:

- Incentives and mechanisms for better corporate governance and shareholder value recognition, including the timely implementation of the recommendations made by the Finance Committee's *Report on Corporate Governance*
- Promoting shareholder activism through further improving the avenues for minority shareholders to exercise and enforce their rights with respect to the companies they invest in

- Enhancing the awareness of, and accountability for, the fiduciary duties and obligations of company directors, management and officers of public-listed companies
- Ensuring high standards of financial reporting and the continuous disclosure of timely, relevant and accurate corporate information
- Promoting greater investor awareness on the informed use of corporate information and in assessing the merits of their investments

STRATEGIC

2.2

INITIATIVE

## Heighten efforts to establish a vibrant and competitive investment management industry

Investors must have access to a vibrant and competitive investment management industry, because of the important role it plays in the pooling and mobilisation of their funds to achieve more efficient portfolio diversification and cost-effective returns. An active and diversified investment management industry provides for a wider scope of viable financial instruments available to investors, and promotes greater liquidity in all sectors and segments of the domestic market. To achieve this, efforts to create a more competitive and dynamic investment management industry will focus on:

- Ensuring that there is a significant number and diversity of industry players with greater access to funds available for management, including promoting the wider outsourcing of institutional funds to the investment management industry
- The deregulation of specific investment restrictions placed on investment management institutions, to allow for greater flexibility in managing their portfolios
- Developing a large pool of highly skilled investment management professionals to foster greater innovation and competition
- Enhancing the efficiency of the regulatory framework governing the industry, including rationalising the licensing framework and shifting towards a more market-based approach for the introduction of new investment management products

STRATEGIC

**2.3**

INITIATIVE

**Enhance the role of institutional investors in the provision and management of funds**

The role of institutional investors is important because, as major suppliers and managers of private capital, their investment actions have an important role in developing market liquidity. Given their influence and resources, they are also more capable of effectively discharging their governance responsibilities with respect to the companies they invest in. Greater institutional investor participation in the provision and management of funds will therefore be promoted, primarily by the following means:

- Facilitating a broader scope of investment activity that may be undertaken by institutional investors, to facilitate more efficient investment decision-making
- Promoting an institutional investing community that is strongly committed to ensuring appropriate corporate accountability and performance orientation with regard to the companies they invest in
- Promoting greater awareness of the role and fiduciary duties of institutional investors and facilitating the training needs of those involved in managing these institutions' funds

STRATEGIC

**2.4**

INITIATIVE

**Facilitate effective risk management by actively developing the derivatives industry**

A sufficiently broad and liquid market for derivatives products will allow local investors and businesses greater scope to hedge their investment or business exposures effectively. Servicing this sector of the market would also represent a source of value-added business for local market institutions and intermediaries. In view of these factors, the risk management industry will be promoted by:

- Facilitating the introduction and availability of a wider range of risk management products
- Allowing the early liberalisation of futures broking and clearing services
- Deregulating certain restrictions on institutional investors from participating in derivatives



- Fostering greater awareness of the use of derivatives products among investors
- Promoting wider market access to derivatives products, including facilitating cross-border partnerships with other derivatives market institutions where appropriate

STRATEGIC

**2.5**

INITIATIVE

## **Facilitate the introduction of a broad range of capital market products catering to various risk-return profiles**

Malaysians must be able to deploy their funds to investments that best suit their individual risk-return profiles. To achieve this, the capital market must be able to offer them access to a wide range of products that meet these preferences. This will be facilitated through:

- Streamlining the approval process for new investment products and facilitating innovation in product origination
- Addressing existing limitations on the ability of Malaysian investors to access a broader range of investment products both locally and internationally
- Ensuring regulatory facilitation for the provision of investment products and services in electronic format

## 3

## To enhance the competitive position and efficiency of market institutions

Malaysian exchanges and clearing houses must be efficient and able to compete for business from a position of strength, in order to ensure that they offer attractive value propositions to issuers and investors alike. In this regard, they must continue to ensure high standards of market conduct and integrity, and that their constituents have access to their services, systems and products at comparable cost and efficiency with international markets and standards. This is particularly pertinent in view of the fact that market institutions worldwide are facing greater global competition for their national franchises over order-flow and listings.

In view of these issues, Malaysian market institutions have to be highly responsive to not only changing consumer demands, but also the impact of globalisation, innovation and technology on their markets. Their business structures and strategies should be aligned accordingly to take advantage of new business opportunities, where appropriate. Finally, their trading, clearance and settlement processes must remain efficient, to facilitate liquidity in exchange-traded instruments and value recognition for their issuers.

STRATEGIC

## 3.1

INITIATIVE

### Restructure Malaysian exchanges and clearing institutions to strengthen their efficiency and competitiveness

Malaysian market institutions must be characterised by high levels of efficiency, financial strength and operational capacity in order to compete successfully in the global marketplace. To achieve this, Malaysian market institutions should be guided by shared goals that seek to mitigate market fragmentation, while reinforcing their collective strengths. Therefore, the overall efficiency and competitiveness of the existing exchanges and clearing institutions in Malaysia should be further enhanced through:

- Promoting the consolidation of exchanges and clearing institutions to allow for greater economies of scale and scope, the pooling of resources, greater distribution reach and a more diversified product and revenue base

- Upgrading of efficiency and competitive capacity by moving towards a shared market infrastructure and the gradual integration of services, products and operations across the merged institutions
- Facilitating the more effective positioning of the proposed consolidated Malaysian market institution to take advantage of enhanced market access, and new opportunities for business and product integration

STRATEGIC

3.2

INITIATIVE

### **Ensure Malaysian exchanges are well positioned to respond to changing market dynamics through the adoption of flexible business structures and commercially oriented strategies**

The structure, management and business strategies of Malaysian exchanges must be readily adaptable to changes in the domestic and global marketplace. The proposed consolidated market institution should have a governance structure that is highly responsive to the interests of its constituents, and not unduly limited in its ability to raise new capital and to engage in further capacity building. To ensure that it is well positioned to respond to the changing business landscape, the following measures should be initiated:

- The consolidated market institution should be demutualised to operate as a for-profit entity
- The demutualised institution should be listed, subject to appropriate shareholding limits, to facilitate the broader representation of its constituents' interests in its management and decision-making processes, and to provide the institution with the financial resources to further tap new markets
- Strategic alliances with global partners should be seriously considered where synergies can be achieved and where they can further enhance the exchange's position as a listing and trading centre

STRATEGIC

3.3

INITIATIVE

### **Enhance the efficiency of the trading, clearing and settlement infrastructure**

An efficient trading, clearing and settlement infrastructure provides market participants with the opportunity to access the trading process without undue delay, risks or financial costs. It also helps make more instruments accessible to

larger pools of liquidity, while the development of stronger and more efficient linkages within the trading process would help reduce transaction and settlement risks. As such, the efficiency of the trading, clearing and settlement infrastructure will be further enhanced through:

- A programme for the establishment of a common front-end trading platform across all exchange-traded products
- Ensuring that trading, clearing and settlement processes are continuously benchmarked against international practices
- Facilitating the use of technological solutions that improve efficiency, through a framework providing legal certainty and clear policy guidelines for such applications
- Studying the possible further integration of settlement and clearing processes across different markets for different instruments

## 4

## To develop a strong and competitive environment for intermediation services

Malaysian capital market intermediaries must be able to offer internationally competitive services to their customers. To do this, however, they need to be able to respond effectively to the impact of changing consumer demands, technological developments, the pressures of greater disintermediation, and the increasing integration of financial services, on the competitiveness of the services they render. This calls for greater constructive competition among local capital market intermediaries, particularly through the further progressive deregulation of services, products and fixed fee structures within this industry. At the same time, Malaysian intermediaries must be financially and operationally strong, with the ability to offer a wide range of financial services, in order to respond effectively to increasing business opportunities in the capital market and competition from other integrated financial service providers.

STRATEGIC

## 4.1

INITIATIVE

### Foster constructive competition through the deregulation of services, products and fixed fee structures

Intermediaries in the Malaysian capital market must be able to offer a wide range of products and services at competitive prices. The deregulation of limitations on the scope of services, products and fixed fee structures, accompanied by the appropriate re-regulation, will provide Malaysian capital market intermediaries with the flexibility to provide maximum value to their customers without compromising investor protection. It will also provide intermediaries with more opportunities for business expansion and diversification, and facilitate greater innovation and efficiency within the capital market. However, the promotion of greater competition through progressive deregulation will be managed so as to ensure that there are no greater adjustment costs than necessary in the process of building up efficiency and diversity in the market. To foster such constructive competition within the capital market intermediation industry, efforts will focus on:

- Deregulating the range of services and products that may be offered by capital market intermediaries, including the liberalisation of investment restrictions in specific areas of market access

- Facilitating the offering of online broking and other investment services
- Progressively liberalising fixed commissions and charges

STRATEGIC

4.2

INITIATIVE

### **Develop strong full-service brokers to provide a competitive market for integrated financial services**

Malaysian capital market intermediaries should be financially and operationally strong, with the ability to offer a wide range of financial services, in order to respond effectively to increasing business opportunities in capital market intermediation activity. This will foster more efficient and cost-effective intermediation services, while at the same time promoting a more competitive market for integrated financial services within a more liberalised environment. As an immediate measure, a core of strong full-service brokers will be developed to facilitate a competitive market for integrated financial services. The development of these full-service brokers will be promoted through:

- Fostering market-driven industry consolidation through the appropriate incentive mechanisms
- Providing greater scope for business expansion through the widening of the range of permitted activities and a streamlined licensing framework
- The gradual removal of impediments to greater geographical expansion

STRATEGIC

4.3

INITIATIVE

### **Ensure Malaysian intermediation services are anchored on appropriate prudential standards, with high levels of business conduct and professional skills**

Malaysian market intermediaries must consistently be strongly and prudently managed, not only to withstand the vagaries of volatile markets and changing competitive dynamics but also to effectively position themselves for future growth and greater competition. There will be continued efforts to ensure that capital market intermediation services are anchored on appropriate prudential standards, accompanied by high levels of business conduct and professional skills, through:

- Enhanced prudential requirements and standards to reflect the risks prevalent in a deregulated, more competitive and integrated environment within which these intermediaries operate

- Partnership efforts between the SC, the relevant professional bodies and academia in key areas of training and professional development
- Facilitating the greater involvement and skills transfer of qualified foreign professionals in key areas where local expertise is insufficient and accelerated professional development is required

STRATEGIC

4.4

INITIATIVE

## **Adopt a pragmatic programme for liberalisation, supported by appropriate safeguards**

A pragmatic approach to liberalisation is needed to derive maximum value from globalisation, while ensuring that the transition to a more liberalised market environment does not give rise to undue adjustment difficulties for the domestic capital market and the broader economy. The liberalisation strategy will therefore entail:

- A co-ordinated programme for liberalisation across all sectors in the capital market to ensure an orderly and harmonised transition process
- Strengthening the capital market via deregulation and consolidation where necessary—including facilitating the formation of strategic partnerships and the use of electronic means to enhance the efficiency, reach and cost-effectiveness of capital market services—to be implemented immediately
- Ensuring that the implementation and sequencing of liberalisation measures are supported by the appropriate safeguards for maintaining investor protection and market integrity

## 5

**To ensure a stronger and more facilitative regulatory regime**

The regulatory regime governing the capital market must be able to address and respond to the challenges of the changing financial landscape in a timely and appropriate manner. A strong and facilitative regulatory regime will ensure that the capital market continues to operate fairly and efficiently and that its role in supporting the economic, financial and commercial interests of its constituents is further enhanced. It should enable the mobilisation and allocation of capital and the performance of related services in the most efficient manner, provide a high level of market confidence and protection to investors, as well as encourage innovation with minimum costs of regulatory compliance.

Therefore, the gradual implementation of market-based regulation across the capital market will be a key initiative towards strengthening and enhancing the regulatory framework in tandem with the overall capital market's development. In addition to and concomitant with this, measures will be taken to ensure regulatory parity between all capital market participants. Efforts will also be undertaken to strengthen enforcement activity further, and to enhance systemic risk management within the capital market.

STRATEGIC

## 5.1

**Move towards a market-based system of regulation for capital market activities**

INITIATIVE

The adoption of a market-based approach to regulation will see the greater use of competitive market disciplines and processes, with minimum direct regulatory intervention, in the pursuit of regulatory objectives. This approach is expected to lay the foundation for more cost-effective regulation, in particular a more appropriate mix of regulatory effectiveness and efficiency. In the longer term, the ultimate aim will be to have no more regulation than is necessary to achieve public policy objectives of safety and soundness. A market-based approach also allows industry participants to take a much greater role in market development



going forward. Among the key features of this gradual move towards the implementation of a market-based system of regulation across the capital market are:

- Enhanced supervision, incorporating risk-based principles, and the use of incentive structures to promote a high level of regulatory compliance, supported by mechanisms for greater self- and front-line regulation by industry participants and market institutions
- The progressive adoption of a full DBR regime across all fund-raising activities in the capital market
- Greater consultation with market participants in the formulation of policies and regulations, with a strong focus on ensuring the cost-effectiveness of regulatory programmes
- The pragmatic sequencing of efforts towards a more market-based system of regulation, while ensuring that market participants remain fully aware of their rights and obligations within a less prescriptive and more deregulated environment

STRATEGIC

5.2

INITIATIVE

## **Ensure regulatory parity and consistency between all institutions and participants conducting similar capital market activities**

Capital market participants performing similar functions, and undertaking similar risks, must likewise be regulated in a comparable fashion. Regulatory parity is necessary in order to ensure a level playing field, effective investor protection and to avoid regulatory arbitrage. To ensure consistency and parity in the manner in which market participants are regulated, there will be:

- Further review of the regulatory framework to ensure comprehensive and effective functional regulation over all parties performing similar tasks or services within the capital market
- Greater regulatory co-ordination and rationalisation to address areas where the policy ambits and supervisory responsibilities of different authorities overlap
- Reduction of the regulatory costs of further market integration through the gradual removal of segmentation with respect to various capital market services, the establishment of a single licensing regime for securities and futures broking, and an examination of the possible consolidation of securities laws into an omnibus legislation

- Periodic reviews of the regulatory system in collaboration with relevant private-sector experts to ensure the longer-term effectiveness and applicability of the overall regulatory framework

STRATEGIC

5.3

### Ensure strong enforcement of the regulations governing the capital market

INITIATIVE

The regulations governing the Malaysian capital market and its participants must be enforced in a manner that is timely and impartial, with sufficient deterrent penalties. This is required in order to instil confidence among market participants in the fairness, efficiency and integrity of the capital market. In this respect, continuous efforts will be made to ensure that the rules are strongly and fairly enforced, with proscribed behaviour clearly and unambiguously defined, and rules determined on a prospective basis. Efforts toward more effective enforcement will include:

- The continuous review of the relevant laws to ensure that investor protection is safeguarded at every stage of market development, including ensuring appropriate mechanisms for investor redress and dispute resolution that can minimise enforcement costs and delays
- Enhancing the investigative and enforcement capacity of the SC
- Ensuring the effective implementation of front-line regulation and self-regulation by the relevant institutions and organisations
- Measures to improve public awareness and industry understanding of the regulatory framework

STRATEGIC

5.4

### Enhance capacity for maintaining systemic and financial stability

INITIATIVE

Systemic risk refers to the potential for a singular disturbance or chain of disturbances to impair the working of the financial system and, at the extreme, cause a complete breakdown of the system. As risk is a fundamental feature of competitive and dynamic financial markets, the issue at hand is to enhance the market's capacity for maintaining systemic and financial stability in the face of

external disturbances and other risks. To achieve this, a framework to enhance capacity for maintaining market stability and resilience to systemic shocks will be formulated. This systemic risk management framework will include:

- The identification of areas of risk concentration and systemic vulnerability, enhanced surveillance of market activity and processes, and ensuring the availability of arrangements for effective crisis management
- Improving the market microstructure to reinforce the integrity of existing systemic linkages; including through the progressive and consistent application of high standards of security and reliability
- Enhanced early warning mechanisms, including arrangements for greater inter-agency collaboration and strong communication lines with market participants
- Strengthening avenues for multilateral regulatory co-operation to ensure timely and effective action where systemic disturbances emanate from external markets

## 6

## To establish Malaysia as an international Islamic capital market centre

Niche markets where Malaysia has the natural strengths and comparative as well as competitive advantage to become a leading player represent potentially significant areas where the domestic market can successfully position itself at the regional or even global forefront, particularly where there is largely untapped potential for such development. The Islamic capital market is one such niche area where Malaysia can capitalise on the existing domestic market infrastructure and the nation's comparative strengths in serving Islamic clientele and businesses. Given these inherent advantages, coupled with the present nascent stage of development of the international Islamic capital market, Malaysia is well-positioned to carve its position as a key player in the provision of Islamic capital market services and products within the international context.

STRATEGIC

## 6.1

INITIATIVE

### Facilitate the development of a wide range of competitive products and services related to the Islamic capital market

To build an Islamic capital market that is competitive and attractive to issuers and investors, there need to be co-ordinated efforts to develop a variety of Islamic securities instruments. Broadening the range of products that can effectively meet the basic investment, capital raising and risk management needs of this market segment entails:

- Facilitating private sector efforts to develop new and competitive Islamic securities products, including assisting in the promotion of Islamic collective investment schemes
- Developing the range and quality of expertise in Islamic securities through training and education efforts
- Encouraging the participation of foreign financial institutions and professionals with expertise in Islamic financial advisory services and investment to advise and facilitate the necessary transferral of knowledge to their Malaysian counterparts in this area

STRATEGIC

**6.2**

INITIATIVE

**Create a viable market for the effective mobilisation of Islamic funds**

A mature Islamic capital market should be liquid and efficient enough to provide the domestic Islamic banking, investment management and *Takaful* industries with competitive investment avenues to facilitate the more efficient mobilisation of these funds. Therefore, measures to facilitate this will include:

- Promoting the selective deregulation of restrictions on the management of funds by Islamic institutions to allow for greater risk diversification and more competitive returns in a Syariah-consistent manner
- Identifying and developing new avenues and instruments in which Islamic assets can be invested and effectively mobilised

STRATEGIC

**6.3**

INITIATIVE

**Ensure that there is an appropriate and comprehensive accounting, tax and regulatory framework for the Islamic capital market**

There should be a well-defined and widely accepted accounting, tax and regulatory framework for the Islamic capital market, in order to facilitate its long-term development. To strengthen this supporting infrastructure for Islamic securities dealings, there should be:

- The establishment of a single Syariah Advisory Council to advise on matters relating to capital market, banking and *Takaful* issues
- Enhancement of the accounting framework relating to Islamic financial products and services
- Regulatory reviews to promote appropriate legal and tax treatment of Islamic financial transactions

STRATEGIC

6.4

INITIATIVE

## Enhance the value recognition of the Malaysian Islamic capital market internationally

Malaysia is well positioned to capitalise on its comparative advantage in serving Islamic clientele and businesses to establish Malaysia as a major international Islamic capital market. To enhance the market's capacity to draw international funds into the domestic market for Islamic financial products, efforts will be directed at, among other things:

- Promoting awareness of the Malaysian Islamic capital market at the domestic, regional and international levels, with the SC playing an active role, together with industry participants, in introducing and implementing such efforts
- Facilitating synergistic relationships with other key Islamic markets to enlarge and strengthen distribution channels, and enhance scope for mutually beneficial co-operative endeavours

## RECOMMENDATIONS: FORMULATION AND SEQUENCING

The recommendations have been formulated with consideration of the trends and challenges the capital market will have to deal with both in the immediate term as well as medium- to longer-term. Their formulation has been premised on the vision, objectives and strategic initiatives as described previously, while taking into account the practical issues involved in their implementation.

An important point considered in their formulation has been the necessity of ensuring a strong balance between the need for greater competition, innovation and liquidity with the overarching priorities of maintaining fair, orderly and efficient markets, with high standards of supervision, enforcement and investor protection. In addition, the urgency for change is weighed against the need to consider potential implications for market stability and integrity, and to ensure that the programme of change is consistent with broad national policy objectives. Among the factors that have been taken into account in this regard—and in future periodic assessments—have been the readiness of domestic market participants to respond to these changes, as well as prevailing market conditions and the stage of market development.

The deregulation and liberalisation of the capital market are two areas in which pragmatic sequencing is particularly essential. Appropriate preparatory measures must precede the facilitation of greater competition within the domestic market, to enhance the resilience of market participants and reduce the severity of economic displacement arising from a sharp increase in competitive pressures.

As such, in most cases liberalisation will be preceded by a preparatory stage where the relevant domestic market participants are given a certain amount of time and opportunity to prepare and respond to the challenges posed by more open market access. This preparatory stage will be characterised by incentives for consolidation where necessary in order to achieve critical mass and financial strength, pragmatic deregulation and appropriate re-regulation. At the same time, there must also be corresponding broad-based efforts and commitment from the outset by both public and private sector participants to take the necessary steps to prepare themselves appropriately.

However, there are certain strategic and nascent sectors of the capital market where the immediate priority is to introduce greater competition and skills transfer to promote the level and quality of services and products offered to participants in the Malaysian capital market. These include the areas such as the investment management industry, venture capital industry, Islamic capital market and derivatives market. In such cases, targeted deregulation and liberalisation measures will be expedited to enhance the breadth and depth of these particular segments in a timely manner. In addition, priority will also be given to the implementation of certain recommendations that carry broad-based implications affecting other recommendations or a broad spectrum of market participants.

Over the medium-term, efforts will be made to further develop the quality and breadth of services and facilities in select strategic niches, such as the Islamic capital market, to be on par with international standards in these fields. At the same time, there will be continued efforts to strengthen core segments of the capital market, with greater liberalisation where necessary. Opportunities for mutually beneficial strategic alliances with other jurisdictions will also continue to be explored. Another priority in this phase includes the further strengthening of market infrastructure through, for example, the creation of an integrated trading platform for multiple product segments within the capital market.

These measures will establish the foundation and initial momentum for a capital market that is internationally competitive, highly efficient, and supported by a strong and facilitative regulatory framework. In the longer term, efforts will be focused on further building on this foundation with a specific view towards becoming a fully-developed capital market and consolidating its international positioning. Hence, initiatives during this period will centre on promoting and further enhancing the regional and international profile of the Malaysian capital market, all the while identifying and developing new areas of competitive and comparative advantage as they emerge, contingent on periodic assessments of prevailing conditions and market readiness. Efforts will also be focused on further improving market efficiency and integrity through, among other things, the ongoing enhancement of market infrastructure, processes and regulatory system.



Taking into consideration the issues discussed above, the Masterplan can be characterised into three distinct phases (See Table 1):

- **Phase 1 (2001–2003):** Expand domestic capacity and strengthen the foundation for further competition through progressive deregulation and selective liberalisation, with some relaxation of barriers to entry in certain nascent areas of the capital market in order to accelerate development of these sectors
- **Phase 2 (2004–2005):** Progressively expand market access and gradually remove barriers to entry across other capital market segments, and further develop the breadth and quality of services and infrastructure
- **Phase 3 (2006–2010):** Implement further expansion plans towards becoming a mature capital market and developing its international positioning in areas of competitive and comparative advantage

**Table 1**

Sequencing framework

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 recommendations for the various segments of the market are set out below.

## Market Institutions

- 1 A single Malaysian exchange should be established through the consolidation of all existing exchanges by 2002
- 2 MESDAQ should be merged with KLSE as part of the exchange consolidation process
- 3 The Malaysian exchange should demutualise and list on the stock market by 2003
- 4 The Malaysian exchange should implement a programme to enhance its value recognition both domestically and internationally
- 5 The Malaysian exchange should pursue appropriate strategic alliances internationally
- 6 A common trading platform across all exchange-traded products should be established following exchange consolidation
- 7 An integrated clearance and settlement system for all exchange-traded products should be established
- 8 A single clearance and settlement institution for all exchange-traded products should be created by 2002
- 9 The money settlement system should be directly linked with the capital market trading and clearing systems
- 10 The settlement cycle should be shortened to T+3 in line with international best practice
- 11 A global depository account for each investor will be established in the central depository
- 12 The SCANS clearing fee will be reduced from 0.05% to 0.04% with effect from 1 July 2001, subject to a maximum of RM200 per contract

- 13 The SCORE fee will be reduced in two stages to 0.005% and 0.0025% with effect from 1 September 2000 and 1 July 2001 respectively. Subsequently, SCORE fees will be reviewed further
- 14 The SC levy will be reduced to 0.015% from the present 0.02% with effect from 1 July 2001
- 15 Stamp duty should be capped at RM200 per contract for all trades on the KLSE and be further considered for eventual removal
- 16 Administrative procedures and rule-structures in relation to portfolio investments should be streamlined in order to reduce operational costs to investors

## Equity Market

- 17 A full disclosure-based framework for the offer and issuance of equity securities will be implemented in 2001
- 18 The involvement of multiple approving authorities in the fund-raising process should be further rationalised
- 19 A shelf-registration scheme for the issuance of equity securities will be introduced
- 20 The market for the provision of corporate advisory services will be further deregulated
- 21 Technological solutions that enhance the efficiency of the fund-raising process will be identified and implemented
- 22 Breadth of listings in the Malaysian equity market will be gradually widened to include listings of foreign companies
- 23 The introduction of Exchange Traded Funds will be allowed
- 24 Comprehensive measures to enhance MESDAQ's role as a fund-raising centre for high-growth companies will be implemented
- 25 The listing of technology incubators will be allowed in 2001

- 26 The promotion and development of the venture capital industry should be centrally co-ordinated
- 27 Venture capital companies will be granted exempt dealer status under the Securities Industry Act 1983
- 28 The establishment of venture capital trusts that can invest up to 100% in unquoted companies will be allowed
- 29 The SC will undertake a review of the tax framework for the venture capital industry in collaboration with the tax authorities, industry participants and the central co-ordinating agency for the industry
- 30 Joint investment programmes between the government and private sector venture capitalists should be increased to boost private sector participation in disbursing government funds for seed and start-up capital
- 31 The participation of local institutional investors in venture capital funds should be promoted
- 32 Greater foreign participation in the venture capital industry should be allowed

## Bond Market

- 33 A full disclosure-based framework for the issuance of corporate bonds will be implemented
- 34 A shelf-registration scheme for the issuance of corporate bonds will be introduced
- 35 The mandatory requirement for credit ratings on corporate bond issues will be removed
- 36 A framework for the issuance of asset-backed securities will be introduced
- 37 The existing taxation framework for Special Purpose Vehicles should be clarified to reflect economic substance, and the stamp duty and Real Property Gains Tax on transactions relating to the issuance of asset-backed securities should be removed to encourage asset securitisation

- 38 Liquidity in benchmark issues should be developed and established
- 39 A programme to issue Malaysian government securities (MGS) should be encouraged and promoted with a view to establishing them as the immediate benchmark securities for the Malaysian bond market
- 40 Regulated short selling of MGS and corporate bonds should be allowed
- 41 Non-financial institutions should be allowed to conduct the entire scope of repo activities
- 42 Markets in MGS futures and options should be established
- 43 Employees Provident Fund's (EPF) investment requirements should be eased to free up its "captive demand" for MGS
- 44 Access to trading on the over-the-counter market should be extended to a wider range of participants
- 45 A phased programme to encourage international financial institutions and multinational corporations to issue ringgit bonds should be considered
- 46 International ratings for domestic bond issuance will be allowed
- 47 A programme for the establishment of a centralised platform for the clearing and settlement of listed and unlisted bonds should be pursued
- 48 The participation of retail investors in the corporate bond market will be encouraged through the promotion of the establishment of bond funds
- 49 The tax framework should be reviewed to encourage issuance and investment in debt securities

## Derivatives Market

- 50 Restrictions on the participation of unit trust funds and closed-end funds in exchange-traded derivatives will be deregulated
- 51 Derivatives funds will be allowed to be established and offered to investors in 2001
- 52 Restrictions on the participation of local institutions, including EPF and insurance companies, in exchange-traded derivatives should be deregulated
- 53 KLOFFE and COMMEX should actively pursue the introduction of more derivative products
- 54 The process for the introduction of new domestic exchange-traded derivative products will be streamlined
- 55 Local futures market intermediaries will be allowed to trade approved international financial derivative products by end-2001
- 56 A new category of International Members with full derivatives trading and broking rights will be allowed by 2002
- 57 Equity ownership requirements of futures broking firms will be liberalised to allow foreign majority ownership by 2003
- 58 Foreign Direct Clearing Memberships will be allowed to be established within MDCH by 2002
- 59 The SC will introduce guidelines for Introducing Brokers by end-2001
- 60 The futures broking commission rate will be fully negotiable by 1 January 2002
- 61 The futures clearing and exchange trading fees will be reviewed by 1 January 2002
- 62 The commission sharing structure between futures brokers and their representatives will be fully negotiable in 2002

- 63 Recognised foreign exchanges will be allowed to place remote access terminals with Malaysian futures brokers in return for reciprocal remote access arrangements by 2002
- 64 Regulated short selling and securities borrowing and lending activities should be re-introduced by 2002

## Islamic Capital Market

- 65 Efforts to introduce more competitive and innovative Islamic financial products and services will be actively pursued
- 66 Efforts to introduce and promote a wider range of Islamic collective investment schemes will be facilitated
- 67 Investment restrictions for the Takaful industry should be further liberalised to facilitate greater mobilisation of Takaful funds into the Islamic capital market
- 68 Efforts to mobilise untapped Islamic assets through securitisation should be pursued
- 69 Efforts to increase the pool of Islamic capital market expertise through training and education will be enhanced
- 70 A single Syariah Advisory Council should be established for the Islamic financial sector
- 71 A facilitative tax and legal framework should be established for the Islamic capital market
- 72 Efforts to develop an appropriate financial reporting framework for the Islamic capital market in collaboration with Malaysian Accounting Standards Board will be pursued
- 73 Increased efforts to enhance the awareness of Malaysia's Islamic capital market at the domestic and international levels will be pursued
- 74 Strategic alliances between Malaysia and other Islamic capital markets should be established

- 75 The government and government-related entities should consider issuing Islamic debt securities in the global market
- 76 The listing of Malaysian Islamic equity funds in international markets should be pursued
- 77 Incentives to encourage the entry of foreign intermediaries and professionals with expertise in Islamic capital market-related businesses should be provided

## Stockbroking Industry

- 78 Efforts to promote consolidation of the stockbroking industry will be pursued
- 79 A new category of full-service intermediaries to be known as Universal Brokers will be introduced
- 80 Branching restrictions on stockbroking companies will be deregulated
- 81 The scope of capital market services that may be offered by stockbroking companies will be widened
- 82 Stockbroking companies and their representatives will be allowed to offer a range of services under a single license
- 83 Stockbroking commission rates will be liberalised in two stages:  
Stage 1 - with effect from 1 September 2000, commission rates for all trades above RM100,000 will be fully negotiable while trades with contract values of RM100,000 and below are subject to a fixed rate of 0.75%  
Stage 2 - with effect from 1 July 2001, commission rates will be fully negotiable for all trades, subject to a cap of 0.70%
- 84 Commission sharing arrangements between remisiers and stockbroking companies will be fully negotiable in 2002
- 85 Foreign equity participation in domestic stockbroking companies will be liberalised in stages beginning from 2003



- 86 Measures to facilitate online trading will be introduced
- 87 Efforts to develop a standardised and centralised back-office system for the stockbroking industry will be facilitated
- 88 Efforts to further promote the use of information technology and e-commerce by intermediaries will be facilitated
- 89 The scope of activities carried out by remisiers should be expanded to a wider range of value-added capital market services, including financial planning

## Investment Management

- 90 A more market-based approach to regulation will be applied to the investment management industry
- 91 The process for introducing new investment management products will be streamlined
- 92 A uniform regulatory framework streamlining the licensing rules for the investment management industry will be introduced
- 93 The management of investment funds should be further deregulated to allow for greater international portfolio diversification
- 94 The SC will recognise industry self-regulation within the investment management industry, subject to appropriate criteria and under strong supervision, to complement the SC's regulatory function
- 95 EPF's investment guidelines should be liberalised to allow the adoption of the "prudent person" approach
- 96 EPF should further diversify the management of its funds by placing out a greater portion with external fund managers
- 97 The eligibility rules pertaining to the EPF's Members' Investment Scheme should be lowered over the longer term

- 98 Measures to facilitate the development of a private pensions industry will be actively pursued
- 99 The further outsourcing of the management of funds by insurance companies should be promoted
- 100 Restrictions on the management of funds by Foreign Fund Management Companies will be liberalised
- 101 Foreign ownership requirements will be liberalised to allow foreign majority ownership of unit trust management companies from 2003
- 102 The SC will examine the viability of implementing an investor compensation programme
- 103 Further tax incentives to encourage investments in collective investment schemes will be examined
- 104 Further efforts to promote investors' awareness of managed funds investment will be undertaken
- 105 Training and professional development needs of the Malaysian investment management industry will be facilitated
- 106 The development of the financial planning industry will be facilitated
- 107 The further development of the trust/custodial services industry will be promoted

## Corporate Governance

- 108 The recommendations contained in the *Report on Corporate Governance* will be effected in a timely and comprehensive manner
- 109 The SC will further facilitate efforts towards enhancing shareholder rights, especially those of minority shareholders, and broadening avenues for private enforcement of these rights
- 110 Minority shareholders' rights in respect of related party transactions will be further strengthened

- 111 Public listed companies will be required to provide appropriate shareholder value disclosures for securities issuance, restructuring, take-overs and merger exercises
- 112 A set of principles, best practices and standards will be developed to encourage institutional investor activism in corporate governance and the promotion of shareholder value recognition
- 113 The SC will strongly support the efforts of Badan Pengawas Pemegang Saham Minoriti Berhad in promoting shareholder activism in Malaysia
- 114 The SC will work with relevant industry bodies in enhancing the quality and independence of auditors of public listed companies
- 115 The SC will encourage the improvement of channels of communication between companies and their shareholders
- 116 The SC and KLSE will initiate further measures to promote timely, comprehensive and regular dissemination of material and relevant company information to shareholders
- 117 Efforts to further enhance disclosures in annual reports by public listed companies will be examined

## Regulatory Framework

- 118 The SC will put in place a comprehensive programme that will gradually implement a system of market-based regulation across all segments of the capital market
- 119 The SC will maintain the existing regulatory structure in relation to arrangements for the regulation of wholesale and retail markets
- 120 Relevant identified market institutions will be established as full front-line regulators to complement the SC's role in the regulation of capital markets
- 121 Appropriate industry associations will be identified and recognised as self-regulatory organisations to complement the SC's regulatory functions

- 122 Further efforts will be pursued to achieve regulatory parity in the treatment of all participants in the capital market through functional regulation
- 123 Efforts to create a single licensing regime and consolidation of securities and futures legislation will be pursued
- 124 Measures to eliminate market segmentation in respect of underwriting, corporate finance, asset management and brokerage services will be introduced
- 125 Cross-market surveillance as well as co-operation and co-ordination between regulatory authorities should be enhanced to strengthen market oversight, and to ensure the consistency and effective pursuit of regulatory objectives and priorities
- 126 Measures to enhance regulatory transparency, accountability and independence will be introduced
- 127 Measures will be introduced to enhance processes and capabilities for effective enforcement
- 128 Measures will be taken to enhance the enforcement capacity of the SC
- 129 The regulatory framework will be enhanced to provide for appropriate mechanisms for systemic risk management
- 130 The SC will develop a regulatory framework for the implementation of electronic commerce in the capital market
- 131 The SC will introduce measures to improve the assessment of regulatory cost-effectiveness
- 132 A five-year review to monitor effectiveness of regulatory structure and framework will be conducted
- 133 A comprehensive review of the current tax framework relating to the capital market should be carried out

## Technology and E-commerce

- 134 Capital market regulation will be technology-neutral and facilitative of innovation
- 135 Access to the market's trading infrastructure will be enhanced
- 136 Regulatory issues relating to the primary market offering and secondary market trading of capital market products through electronic means will be clarified
- 137 End-to-end straight-through processing in the Malaysian capital market should be achieved, with appropriate linkages with international systems to be facilitated
- 138 The facilitation of electronic trade settlement through the integration of the technologies of the clearing and settlement system with the payment system will be examined
- 139 The development of online value-added services and innovations such as financial portals and financial hubs will be facilitated
- 140 Online trading of units in unit trust funds will be permitted
- 141 Surveillance and enforcement capabilities of online capital market activities will be enhanced
- 142 Training and education programmes for market institutions, market participants and investors on the use of technology and e-commerce will be enhanced
- 143 International standards of security, reliability and privacy will apply to technology infrastructure

## Training and Education

- 144 Training programmes to create highly skilled and flexible market professionals will be developed
- 145 A culture of continuous learning and skill enhancement will be encouraged through Continuing Professional Education programmes
- 146 Skills of regulators, including front-line regulators and self-regulatory organisations, will be strengthened
- 147 Efforts will be made to increase the availability of skilled graduates for the capital market through arrangements with universities in curriculum development
- 148 Licensing examinations for capital market professionals will be streamlined
- 149 Education, training and licensing examinations will be made more accessible
- 150 The skills, knowledge and competencies of Bumiputera intermediaries will be enhanced
- 151 Investor protection and education will be further promoted through awareness programmes
- 152 The SC will develop SIDC as a regional capital market training centre

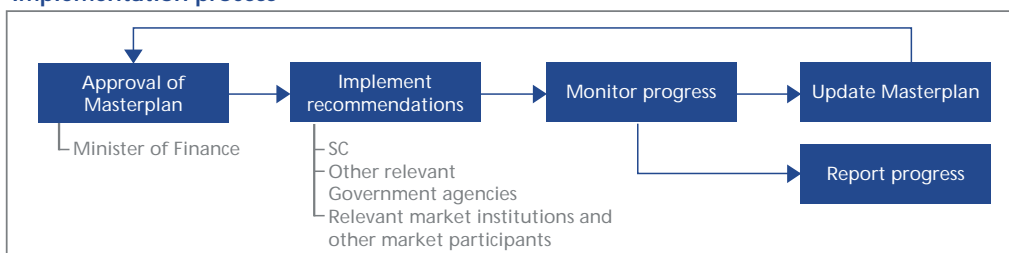
## IMPLEMENTATION FRAMEWORK

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

- Prescribes a mechanism for co-ordinating the implementation of the Masterplan'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
- Contains guidelines for regular performance monitoring and progress reporting
- Describes the communication programme to disseminate and obtain feedback on the Masterplan

Figure 4 sets out the approach to implementing the recommendations.

**Figure 4**  
**Implementation process**



The overall progress of the implementation process will be closely monitored by the SC, to ensure that the recommendations are implemented within the stipulated timeframes. Where timeframes need to be adjusted, other affected initiatives will be reviewed and rescheduled accordingly.

The SC will establish an Implementation Task Force to co-ordinate the implementation of recommendations. Responsibility for the operational implementation of various recommendations will be largely devolved to Working Committees comprising representatives from the relevant industry associations and other market participants from the private sector, where the implementation involves their respective organisations and/or industries.<sup>1</sup>

<sup>1</sup> Amongst other things, Working Committees will be formed to take on the implementation of key proposals such as the consolidation and demutualisation of the market institutions, and the subsequent integration of systems and trading platforms. The implementation of recommendations relating to the corporate bond market will continue to be undertaken through the National Bond Market Committee.

In addition, a Capital Market Advisory Council will be appointed to advise the SC on developments in the global and domestic capital markets and their potential implications, and to provide independent external views on the progress of implementation of the Masterplan. The Advisory Council will be composed primarily of senior domestic and foreign financial market participants and leading experts who can provide appropriate representation over the spectrum of capital market activities. It is expected that the members of the Advisory Council will also be involved in efforts to promote and facilitate smooth implementation of the Masterplan, and advise the SC on areas where it may be necessary to further revise the recommendations to reflect evolving market developments.

Apart from the private sector, there will be close co-ordination with other relevant different government agencies to ensure consistency of efforts and policies and synchronised communication of issues and developments in areas involving more than one jurisdictional authority to the general public.

## CONCLUSION

The Masterplan provides a clear statement of the regulatory philosophy underpinning developmental efforts in the capital market over the next ten years, and outlines a detailed plan of action incorporating specific recommendations for the development of the capital market in the short, medium and long term. In particular, the role of the capital market in facilitating effective capital formation to meet the nation's economic needs and creating a supportive environment for the efficient mobilisation of domestic funds is emphasised as an important aspect of the Masterplan's objectives and strategic initiatives.

As part of its mandate to develop fair, efficient, secure and transparent markets, the SC has always prioritised investor protection as a fundamental principle in its regulatory decisions. The Masterplan builds on this foundation through further measures to inculcate better corporate governance and shareholder value recognition. At the same time, parallel efforts will be made to improve the incentives and avenues for effective self-regulation and market discipline.

The Masterplan is a blueprint to guide market participants in forming their own analyses as to the future direction of the capital market and mapping their own business strategies accordingly. This calls for broad-based commitment from the



outset by both public and private sector participants to take the appropriate preparatory measures in cognisance of this blueprint, so that the challenges of increased liberalisation and competition will be ably met by Malaysian capital market participants and institutions.

The SC is confident that the joint efforts of the government and capital market participants will bring the vision and objectives of the Masterplan into fruition, effectively meeting the current and future needs of the Malaysian capital market's users and laying a strong basis for its further development thereafter.

## **ACKNOWLEDGEMENTS**

The SC wishes to thank the large number of capital market participants and other observers and interested parties who made submissions, participated in public consultations and meetings with the SC, or assisted with research. The course of the SC's research has been greatly facilitated by the generous assistance of many parties and organisations that contributed their time, resources and skills. The SC is also grateful for the input and assistance provided by the various working groups and committees established during the course of the Masterplan's formulation. The detailed list of the parties who provided such input and feedback are listed in the main document of the Masterplan.