

CHAPTER 1

INTRODUCTION



Introduction

The Capital Market Masterplan is a comprehensive plan charting the strategic positioning and future direction of the Malaysian capital market for the next 10 years. It is intended 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 in meeting the challenges of relevant externalities such as regional competition and increasing globalisation. This section provides an overview of the background underlying the development of the Masterplan, the approach and consultation process taken in its formulation, and the structure and highlights of the final report.

BACKGROUND

In recent years, the challenges facing the Malaysian capital market from the rapidly changing domestic and international environment have highlighted several key imperatives for ensuring that Malaysians continue to have access to a fair, efficient and robust national securities market under these dynamic conditions. In view of this, the need for providing strategic certainty and a clear blueprint for action for the Malaysian capital market that would preserve and enhance its position and pivotal role in the domestic economy and within the Asia-Pacific region was clear.

Therefore, 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.

The decision to pursue the formulation of the Masterplan was also driven, in part, by requests from industry participants at various industry dialogues for an overall long-term strategic plan that would identify key areas and time frames for market enhancement and development. In addition, there was a clear need for an appropriate framework to ensure the orderly and effective deregulation and liberalisation of the capital market; and a determination as to areas where the capital market would strategically position itself both domestically and internationally.

In view of these issues, 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 Securities Commission (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
- 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 with a view to ensuring that Malaysia's capital market remains efficient, competitive, financially sound and responsive to global trends. With this in mind, the consolidated framework would need to be comprehensive enough to ensure 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 product markets 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 the future in supporting further economic development.

APPROACH AND CONSULTATION PROCESS

The SC began a process to carry out an extensive review of all key segments of the capital market to analyse existing structural deficiencies and impediments. Within this process, there was clearly a need to assess the present role of the Malaysian capital market and that of its constituents, and current policies affecting those constituents relative to the strategic positioning determined above.

A Capital Market Strategic Committee (CMSC) consisting of high-level representatives from the SC and the private sector was established in September 1999 to facilitate the development of the Masterplan. The Chairman of the SC was appointed by the Minister of Finance to chair the CMSC, while six other members were appointed from various sectors of both domestic and international capital markets. The principal responsibility of the CMSC was to oversee the progress of work on the Masterplan and to provide its views and input on relevant issues concerning the strategic positioning and future direction of the Malaysian capital market.

To facilitate direct consultation with a sufficiently wide representation of views from those most closely involved in the capital market, the following efforts were taken:

- The Capital Market Masterplan website was launched in October 1999 to disseminate information and garner public feedback on the Masterplan
- A press statement to invite public submissions was released in October 1999
- Letters soliciting the views of the domestic market institutions, relevant industry and professional bodies, and other market participants were sent out in November 1999
- Public feedback on a consultation paper on the *Framework for Implementation of Electronic Commerce in the Capital Market*, which would form the basis of the Masterplan's recommendations relating to the application of electronic commerce (e-commerce) in the capital market, was invited with the release of the paper in March 2000

- Consultations with all primary capital market industry and professional bodies were held over the entire course of the Masterplan's formulation
- Meetings with the Ministry of Finance (MOF), other government ministries and regulatory agencies, capital market reform experts from other jurisdictions, academics, and foreign and domestic users of the Malaysian capital market, were held throughout the duration of the consultation process
- Private consultants were retained to assist in providing research and independent assessments of the Malaysian capital market's current and potential competitive situation

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 MASTERPLAN: THE FINAL REPORT

The Masterplan provides a clear statement of the strategic philosophy underpinning developmental efforts in the capital market over the next 10 years, and outlines a plan of action incorporating specific recommendations for the development of the capital market going forward. In particular, the role of a vibrant and dynamic capital market in facilitating effective capital formation to meet the nation's economic needs and in creating a supportive environment for the efficient mobilisation of domestic savings is emphasised as an important aspect of the Masterplan's aims.

The implementation of these recommendations also takes into account the optimal sequencing for an orderly progression towards enhancing the scope for innovation, competition and liberalisation to meet the challenges of increasing globalisation. At each interim step of the planning process, the market's capacity to accommodate such changes with a minimum of economic dislocation is assessed against the benefits of further deregulation and liberalisation.

The Masterplan is structured accordingly:

- **Chapter 2: Trends and Challenges** reviews the development of the Malaysian capital market to date, key trends affecting its future direction, and the primary challenges it faces in moving forward
- **Chapter 3: Vision and Strategy** provides an overview of the vision of developing a capital market that is internationally competitive, highly efficient and supported by a strong and facilitative regulatory framework, and explains the objectives and strategic initiatives underpinning the recommendations of the Masterplan
- **Chapter 4: Recommendations** contains the detailed recommendations aimed at achieving the objectives and strategic initiatives. These recommendations are presented according to the various industry institutions, sectors and participants represented in the capital market
- **Chapter 5: Implementation Framework** sets out the implementation process, responsibilities, performance monitoring and communication programme for the recommendations. It also provides the sequencing framework for the orderly implementation of the Masterplan

In addition, a separate appendix, *The State of Play*, has also been prepared as background information for the Masterplan. It provides a breakdown of the development of the major components of the capital market and their current state of play in relation to the international landscape.

Because of the wide scope of issues covered by the Masterplan, its overall strategy contains some elements that are of immediate priority and others that can be effected over the medium- to longer-term. As such, work on some priority areas that have been identified for early action are already underway, while others will be implemented more gradually over time.¹

To ensure the timely and effective achievement of the vision and objectives set forth in the Masterplan, the SC will work very closely with relevant market participants in the implementation of the strategic initiatives and recommendations. This will include further consultations with industry prior to the actual implementation of many of the recommendations. For some of the recommendations with a wide range of implications, consultative papers will be issued before detailed implementation. In moving forward, a broad-based commitment from all parties involved towards sharing the responsibility for the attainment of the vision will be key to the success of the further advancement of the Malaysian capital market.

¹ Certain recommendations of immediate priority were announced early to ensure sufficient lead time for implementation. The implementation updates have been duly noted as such under the relevant recommendations in Chapter 4.