



CapitalMARKET

MASTERPLAN

M A L A Y S I A



Suruhanjaya Sekuriti
Securities Commission

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Foreword



Y.B. TUN DAIM ZAINUDDIN

Minister of Finance Malaysia

The launch of the Capital Market Masterplan represents a significant milestone in the history of the Malaysian capital market. It marks the first comprehensive plan, formulated in collaboration with participants to chart the development of the capital market for the next 10 years. With the economic recovery from the regional financial crisis of 1997–98, the Masterplan comes at a time when there is a need for clear strategies to position the capital market for the next stage of development.

While the capital market has played an important role in mobilising funds and facilitating economic development in the past, the development financing requirements of our economy indicate that even greater demands will be placed on the capital market in the coming years in order to achieve our national aspirations. Malaysia's development objectives, as spelled out in *Vision 2020*, the various *Outline Perspective Plans* and five-year *Malaysian Development Plans* indicate the need for the appropriate capital market structures and mechanisms to support the economic, financial and commercial goals of the country.

At the same time, factors such as the increasing integration of global financial markets and rapid advances in technology have significantly affected the structure and operation of financial institutions. Heightened international competition for issuance business and investment capital also requires a pro-active response and appropriate anticipatory measures within the Malaysian context. These challenges will have significant implications for the future direction and development of the Malaysian capital market and the economy as a whole, and must be met in a timely and pragmatic manner.

It is in view of this, that I had approved the mandate for the Masterplan, aimed at charting the strategic positioning and development for the Malaysian capital market. Importantly, broad objectives and strategies embodied in the Masterplan seek to ensure that Malaysians continue to have access to a fair, efficient and robust national securities market under these dynamic conditions.

I would like to express my thanks to the Securities Commission, the Capital Market Strategic Committee, and others who have provided their valuable support and input to the Masterplan. Ultimately, the success of the Masterplan hinges on the combined efforts and commitment of all concerned particularly market participants and the relevant authorities. I am confident that the joint efforts of all these parties will lead to the successful building of an efficient and internationally competitive capital market capable of meeting the needs of a growing economy, and providing a strong foundation for it to move forward and progress further.

DAIM ZAINUDDIN
February 2001

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Foreword

ALI ABDUL KADIR

Chairman of the Securities Commission

It has been said that there are no prizes for predicting rain; only for building the ark. Amid a more dynamic and competitive global environment, the Capital Market Masterplan presents a strategic roadmap—a blueprint, so to speak—for the development of a capital market for Malaysia that is well-positioned to make a significant contribution towards the country's national aspirations, and that is able to meet the increasing challenges of international competition and globalisation.

Over the last decade, the Malaysian capital market has witnessed a considerable amount of development, and has assumed an increasingly significant role within the overall financial sector. Much has been done to enhance market infrastructure and processes, and to strengthen the regulatory framework during this period, with the Securities Commission itself having been at the forefront of such efforts since its establishment in 1993. The capital market has seen significant growth, with a steady increase in the number of companies listed and the amount of funds raised, while the overall range of products and services available within the capital market has expanded appreciably.

Going forward, however, it is clear that the capital market faces a number of challenges if it is to continue to fulfil its role within the domestic economy effectively. The capital market must continuously be able to meet the evolving and increasingly sophisticated needs of investors and must enhance its value proposition for Malaysian issuers. Developing internationally competitive market institutions and intermediaries will be key, while it is crucial that within a changing market environment, the regulatory framework continues to provide all market participants with a high degree of confidence. And amid greater global competition, the capital market must seek ways of successfully promoting value-added services and products in line with Malaysia's comparative and competitive advantages. Given the breadth of areas that needs to be addressed, pursuing a structured approach to capital market development demands strategic clarity of the vision and objectives going forward. The Masterplan focuses on charting the strategic positioning and future direction for the capital market, and ensuring that there is capacity to be able to adapt within a changing environment; in doing so, it avoids making specific forecasts of the exact landscape for Malaysia's capital market in the future.

The Masterplan envisages that Malaysia will be able to establish a capital market that is internationally competitive, provides an efficient conduit for the mobilisation and allocation of funds, and is supported by a facilitative and strong regulatory framework. The realisation of this vision through the 152 recommendations contained in the Masterplan is underpinned by six broad objectives and 24 strategic initiatives. I would urge you to read these objectives and strategic initiatives carefully in conjunction with the recommendations for the various segments of the capital market in order to derive a better understanding of the overall framework within which the recommendations were formulated. I must emphasise that these recommendations are intended to provide guidance and direction to market participants. It is important to remember that the Masterplan is a dynamic, not static, document which will undergo periodic review to ensure that it remains relevant. Moreover, where appropriate, further recommendations will be introduced over the course of the period of the Masterplan.

The formulation of the Masterplan's strategic initiatives and recommendations have considered the trends and challenges outlined above, in relation to the immediate-term as well as in the medium- to longer-term. In particular, they take cognisance of the need to achieve greater competition, innovation and market liquidity. Nevertheless, despite acknowledging the urgency for change, the Masterplan also strives to ensure that fair, orderly and efficient markets are maintained, coupled with strong investor protection, and high standards of supervision and enforcement. Ultimately, issues are considered against the implications for market stability and integrity as well as consistency with broad national policy objectives. The implementation of certain initiatives are already underway, as they represent a continuation of the Commission's work in key areas such as corporate governance, the bond market and the enhancement of the regulatory framework; others will be implemented over time. In addition, several recommendations have been announced early by the Minister of Finance in Budget 2001 as well as by the Commission to allow for sufficient implementation lead time. Where relevant, the Masterplan provides updates for the recommendation concerned.

There are significant areas of priority that have been identified as key imperatives to support the development of an internationally competitive and efficient capital market. These include recommendations to capitalise on Malaysia's comparative advantages by establishing a global Islamic capital market centre; to establish a vibrant and competitive investment management industry; and to undertake significant restructuring of Malaysia's market institutions in order to achieve economies of scale and scope, as well as to ensure that they are well-placed to respond to changing market dynamics. In the area of market regulation, the Masterplan recognises the changing dynamics of market activity and the institutions that conduct such activity by outlining a shift by the Commission towards market-based regulation, and plans for enhancing regulatory parity and consistency, in an effort to achieve seamless regulation for the overall financial system.

In formulating the Masterplan, the Commission held an extensive series of discussions and consultations with a wide range of industry participants, professional bodies, capital market experts, academics and other regulatory agencies. Submissions were sought from industry as well as the general public, and an official Masterplan website was launched by the Commission to provide a further avenue for public feedback. I am pleased to say that the Commission received significant input through all these channels and that the Masterplan is the culmination of these collaborative efforts. On behalf of the Commission, I would like to thank all those who took the time and made the effort to share their views. You have made an important contribution towards the formulation of significant policies that will drive the development of the Malaysian capital market going forward.

The Masterplan was presented to Y. B. Tun Daim Zainuddin, the Minister of Finance, in October 2000 and subsequently received his approval. I am grateful to the Minister for his guidance and support over the course of the preparation of the Masterplan. I should also like to extend my particular thanks to the members of the Capital Market Steering Committee, which I had the honour of chairing, namely: Y. Bhg. Dato' Ainum Mohd. Saaid, former Deputy Chief Executive of the Securities Commission (alternate chairman); Y. Bhg. Tan Sri Dato' Francis Yeoh, Managing Director of YTL Corporation Bhd; Y. Bhg. Dato' Mohd. Azlan Hashim, Executive Chairman of the Kuala Lumpur Stock Exchange; Y. Bhg. Datuk Mohaiyani Shamsudin, Chairperson of the Association of Stockbroking Companies Malaysia and Managing Director of Mohaiyani Securities Sdn Bhd; Y. Bhg. Dato' Megat Najmuddin Megat Khas, President of the Federation of Public Listed Companies Bhd, President of the Malaysian Institute of Corporate Governance and Chairman of Asian Pac Holdings Bhd; Mr Stephen Taran, Managing Director and Global Head of Sovereign Credit Research, Salomon Smith Barney, New York; and Mr. Jeyaratnam Tamotharam Pillai, Chief Executive Officer of Amanah Merchant Bank Berhad. I would also like to express my gratitude to Professor Donald R. Lessard, Professor of International Management at the Massachusetts Institute of Technology (MIT) and Deputy Dean of MIT's Sloan School of Management, for his contributions in reviewing and providing input to the report. Finally, I would like to extend my appreciation to Commission staff members for their efforts in the formulation of the Masterplan.

As we move into the new millennium, it is my hope that the spirit of co-operation and collaboration between the regulatory authorities and market participants will continue to manifest itself and that together, we can work towards ensuring effective and timely implementation of the Masterplan's recommendations, and the realisation of the Masterplan's vision and objectives.

ALI ABDUL KADIR
February 2001

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Acronyms and Abbreviations

AAOIFI	Accounting and Auditing Organisation for Islamic Financial Institutions
ADB	Asian Development Bank
AIM	Alternative Investment Market, UK
AMEX	American Stock Exchange
APEC	Asia-Pacific Economic Co-operation
ASB	Amanah Saham Bumiputera
ASNB	Amanah Saham Nasional Bhd
ASEAN	Association of South-East Asian Nations
ASIC	Australian Securities and Investments Commission
ASN	Amanah Saham Nasional
ASX	Australian Stock Exchange Ltd
ATS	Alternative trading system
BAFIA	Banking and Financial Institutions Act 1989
BELFOX	Belgian Futures and Options Exchange
BIDS	Bond Information and Dissemination System
BIRT	Bank Islam Institute of Research and Training
BNM	Bank Negara Malaysia
BPPSM	Badan Pengawas Pemegang Saham Minoriti Berhad
BTF	Bumiputera Training Fund
CA	Companies Act 1965
CAGR	Compounded annual growth rate
CAR	Capital Adequacy Requirement
CDS	Central Depository System
CFTC	Commodity Futures Trading Commission, US
CFP	Certified Financial Planner
CIC	Capital Issues Committee
CLOB	Central Limit Order Book
CME	Chicago Mercantile Exchange
CMSC	Capital Market Strategic Committee
COMMEX	Commodity and Monetary Exchange of Malaysia
CPE	Continuing professional education
CPO	Crude palm oil
Danaharta	Pengurusan Danaharta Nasional Berhad
Danamodal	Danamodal Nasional Berhad
DBR	Disclosure-based regulation
DVP	Delivery versus payment
ECN	Electronic communication network
EPF	Employees Provident Fund
EPU	Economic Planning Unit
ETF	Exchange Traded Fund
FAST	Fully Automated System for Tendering
FFMC	Foreign Fund Management Company
FIA	Futures Industry Act 1993

FIBV	Federation Internationale des Bourses de Valeurs
FIC	Foreign Investment Committee
FLR	Front-line regulator
FPLC	Federation of Public Listed Companies
FRA	Financial Reporting Act 1997
FRF	Financial Reporting Foundation
FSA	Financial Services Authority, UK
G-30	Group of Thirty
GATS	General Agreement on Trade in Services
GDP	Gross domestic product
GEM	Growth Enterprise Market, Hong Kong
GSTPA	Global Straight-Through Processing Association
HKFE	Hong Kong Futures Exchange Limited
IAS	International Accounting Standard
IASC	International Accounting Standards Committee
IB	Introducing Broker
ICOR	Incremental capital-output ratio
ILKAP	Institut Latihan Kehakiman dan Perundangan
IMF	International Monetary Fund
IOFC	International Offshore Financial Centre
IOSCO	International Organisation of Securities Commissions
IPO	Initial public offering
ISIN	International Securities Identification Number
ISO	International Organisation for Standardisation
IT	Information technology
IUTA	Institutional Unit Trust Agent
KATS	KLOFFE Automated Trading System
KLCE	Kuala Lumpur Commodity Exchange Bhd
KLCI	KLSE Composite Index
KLIBOR	Kuala Lumpur Interbank Offered Rate
KLOFFE	Kuala Lumpur Options and Financial Futures Exchange Bhd
KLSE	Kuala Lumpur Stock Exchange
KSE	Korea Stock Exchange
LIFFE	London International Financial Futures and Options Exchange
LO	Licensing Officer
LOFSA	Labuan Offshore Financial Services Authority
LSE	London Stock Exchange
LTH	Lembaga Tabung Haji
MACPA	Malaysian Association of Certified Public Accountants
MARC	Malaysian Rating Corporation Berhad
MASB	Malaysian Accounting Standards Board
MCD	Malaysian Central Depository Sdn Bhd
MDCH	Malaysian Derivatives Clearing House Bhd
MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotation Berhad
MFCC	Malaysian Futures Clearing Corporation
MGS	Malaysian government securities
MIA	Malaysian Institute of Accountants
MICG	Malaysian Institute of Corporate Governance
MITI	Ministry of International Trade and Industry

MME	Malaysian Monetary Exchange
MOF	Ministry of Finance
MONEP	Le Marche des Options Negociables de Paris, France
MORE!	MESDAQ Order Routing and Execution System
MTDC	Malaysian Technology Development Corporation Sdn Bhd
Nasdaq	National Association of Securities Dealers Automated Quotation
NAV	Net asset value
NBMC	National Bond Market Committee
NSCC	National Securities Clearance Corporation, US
NYSE	New York Stock Exchange
OCC	Options Clearing Corporation, US
OECD	Organisation for Economic Co-operation and Development
OIC	Organisation of Islamic Conference, United Arab Emirates
OTC	Over-the-counter
PDS	Private debt securities
PLC	Public listed company
PNB	Permodalan Nasional Berhad
PUNB	Perbadanan Usahawan Nasional Bhd
RAM	Rating Agency of Malaysia Berhad
RENTAS	Real Time Electronic Transfer of Funds and Securities
RIIAM	Research Institute of Investment Analysts Malaysia
RM	Ringgit Malaysia
ROC	Registrar of Companies
RPGT	Real Property Gains Tax
RSS	Regulated short selling
RTGS	Real time gross settlement system
SAC	Syariah Advisory Council
SBL	Securities borrowing and lending
SC	Securities Commission
SCA	Securities Commission Act 1993
SCANS	Securities Clearing Automated Network Services Sdn Bhd
SCORE	System on Computerised Order Routing and Execution
SEC	Securities and Exchange Commission, US
SEHK	Stock Exchange of Hong Kong Limited
SFA	Securities and Futures Authority, UK
SFE	Sydney Futures Exchange Ltd
SGX	Singapore Exchange Limited
SGX-DT	SGX-Derivatives Trading Ltd
SIA	Securities Industry Act 1983
SIB	Securities and Investment Board, UK
SICDA	Securities Industry (Central Depositories) Act 1991
SIDC	Securities Industry Development Centre
SIMEX	Singapore International Monetary Exchange Limited
SME	Small and medium-sized enterprises
SOCSSO	Social Security Organisation
SPEEDS	Sistem Pemindahan Elektronik untuk Dana dan Sekuriti
SPV	Special purpose vehicle
SRO	Self-regulatory organisation
STP	Straight-through processing

TOCOM	Tokyo Commodity Exchange
TOP	Panel on Take-overs and Mergers
TSE	Tokyo Stock Exchange
TSR	Transferable subscription rights
UB	Universal Broker
UK	United Kingdom
US	United States
YPEIM	Yayasan Pembangunan Ekonomi Islam Malaysia