

## P R E S S   R E L E A S E

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**Sydney, 24 February 1998**.....Capital market regulatory structures remain intact in Malaysia despite coming under severe stress in the financial market turmoil of 1997. SC Chairman Dato' Mohamed Munir Majid said this today when addressing 80 Australian fund managers at a luncheon organised by the Australian Securities Commission (ASC) and Freehill, Hollingdale & Page, a prominent legal firm in the city.

"In the conditions of panic that gave rise to quick and angry judgement, there were exaggerated conclusions that the regulatory system had broken down when, like everything else in the turmoil, it was tested and shaken," Dato' Munir asserted in his luncheon address. Yesterday Dato' Munir delivered a keynote address on *'Regulatory trends and issues in Asian financial markets'* at the ASC Summer School in Melbourne.

Dato' Munir, however, pointed out the crisis threw up certain weaknesses that have to be addressed if Asian markets are to come back to win investor confidence. Chief among the weaknesses was the level of corporate governance which must be improved. "There must be greater transparency in corporate activity and transactions," Dato' Munir said, "and compliance of existing rules on investor protection."

In this regard, Dato' Munir alluded to the programme to introduce full disclosure based regulation in Malaysia by 2001 and emphasised that the corporate sector must understand that, while more flexible, it also represented a more onerous regime of information disclosure, which entailed:-

- due diligence by investment advisers;
- timely and complete information dissemination by companies;
- compliance with accounting and financial reporting standards.

The crisis in financial markets, according to Dato' Munir, also exposed weaknesses of professional and risk management which have to be improved. For example, there has been gross mispricing of primary issues by underwriters who ignored market trends and beat down underwriting fees to gain the business. With undersubscription, many of these underwriters are holding shares trading at below issue price.

Management of risk has also not been satisfactory, with long positions, in some cases, insufficiently covered and managed. The new gearing limits worked out by Bank Negara, the Securities Commission and Kuala Lumpur Stock Exchange, which have now been introduced to member companies of the exchange, together with single customer and security limits as well as the reining in of margin financing activities, Dato' Munir believed, would go a considerable way towards addressing risk management concerns.

The SC Chairman also informed the gathering that the Commission had been asking the exchange to come up with new risk-adjusted capital adequacy requirements for its members for a period of time now and, at long last, it can be reasonably anticipated that the new capital adequacy requirements will be in place before the year is out. Dato'

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Munir, however, pointed out that despite all the risk management problems thrown up by the crisis in financial markets, there has not been a single failure of settlement.

Finally, Dato' Munir emphasised there has to be stricter enforcement and ensurance of compliance of securities laws, rules and regulations, especially as the market moves towards a full disclosure based regime. Mindful of the need to adequately protect the investor, the Commission had, as part of its first Business Plan ended last year, identified the provision of civil enforcement powers to complement traditional criminal sanctions to combat securities offences. Dato' Munir informed the gathering that the necessary amendments have been approved by the Parliament and the provisions are expected to come into force in less than two months.

Dato' Munir also informed the gathering of other amendments similarly approved that would tighten the Commission's control over listed companies, its directors and key officers. The amendments now enable the SC to enquire behind nominee shareholding, to require directors and chief executives of listed companies to disclose their interest in securities and to apply to Court to have a person disqualified as a chief executive or director of a listed company. Steps will also be taken this year, Dato' Munir further informed the gathering, to prepare and to ensure that KLSE can take on the role of a fully effective frontline self regulatory organisation.

During his brief one-day visit to Sydney, the SC Chairman met a number of fund managers in one-to-one meetings, who wanted to know more about the capital market and regulatory situation in Malaysia, as well as about prospects for the fund management industry.

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