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Capital Market Masterplan charts strategic position for Malaysian capital market

The Minister of Finance, Tun Daim Zainuddin, today officially launched the Capital Market Masterplan which will set the strategic position and future direction of capital market development for Malaysia.

The Masterplan seeks to ensure that the capital market is well positioned to play its part in supporting national economic growth needs and aspirations, meeting the challenges of regional competition and increasing globalisation, as well as tapping value-added opportunities within areas of comparative and competitive advantage.

"The Masterplan provides the market with strategic clarity in a rapidly changing environment through an outline of broad objectives and principles relating to the further development of the capital market", said the Securities Commission (SC) Chairman, Encik Ali Abdul Kadir.

The overarching aspiration of the Masterplan is embodied in its vision to create a capital market that is internationally competitive in all core areas necessary to support Malaysia's basic capital and investment needs, as well as its longer term economic objectives; and which is a highly efficient conduit for the mobilisation and allocation of funds. This is supported by 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.

The Masterplan has six key objectives, which are linked to 24 strategic initiatives and 152 recommendations. The six key objectives are:

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

The Masterplan outlines a set of initiatives and recommendations that relate to the further broadening and deepening of funding instruments and markets, including the further development and enhancement of alternative capital raising avenues such as the corporate bond market and venture capital. Furthermore, enhancements will be made to ensure greater liquidity in the listed market for high growth companies. In addition, the overall process of fund-raising will be made more efficient in an effort to lower the overall cost of raising capital within the capital market.



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In recognition of the importance of developing internationally competitive market institutions that provide value to all its stakeholders, the Masterplan recommends the establishment of a single Malaysian exchange and a single Malaysian clearing house. It has been recommended that the single Malaysian exchange be demutualised and operate as a for-profit entity and be subsequently listed. In addition, the Masterplan has included recommendations to create a common trading platform as well as an integrated clearance and settlement system for all exchange-traded products following exchange consolidation.

The consolidation of the stockbroking industry and the creation of a new category of intermediaries known as Universal Brokers are seen to be strategic imperatives for fostering a more competitive market for integrated financial services and to prepare the industry for impending liberalisation. The Masterplan has formulated a phased and pragmatic programme for the liberalisation of intermediation services, particularly in certain nascent areas of the capital market such as the derivatives market where early liberalisation initiatives will be taken with regard to futures broking and clearing services. However, the implementation of these measures will be appropriately sequenced and be based on a careful assessment of market readiness and industry preparedness. In addition, efforts will focus on, among other things, the deregulation of limitations on the scope of services, products and fixed fee structures. The Masterplan further recommends the use of technology in the provision of services such as online broking and other technology related investment services.

One of the key areas identified in the Masterplan is the development of an effective investment management industry. The strategic initiatives and recommendations in this area relate to the further deregulation of the investment management industry and review of pension funds to allow for the development of a higher number and diversity of industry players with greater access to funds available for management. Moreover, the plan outlines measures to facilitate the development of a private pension fund industry, to ensure that the capital market plays an effective role in the mobilisation and allocation of funds. In addition, the SC will ensure that there is a sufficiently facilitative regulatory framework governing the industry to support the development of a vibrant and competitive investment management industry.

To promote a more conducive environment for investors, the Masterplan places emphasis on enhancing and maintaining a strong framework for corporate governance and shareholder value recognition. Apart from measures to fully implement recommendations contained in the Finance Committee Report on Corporate Governance, the Masterplan identifies the need to encourage institutional investors to play a greater role in the promotion of corporate governance, promote shareholder activism through improving avenues for minority shareholders to exercise their rights, enhance the awareness and accountability of corporates and ensure the high standards of financial reporting and continuous disclosure of timely, relevant and accurate information.



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As part of efforts to capitalise on comparative and competitive advantages, the Masterplan recommends that efforts be directed at positioning the Malaysian market as an international Islamic capital market centre and a global leader in this market. Efforts in developing this niche market will entail, among others, facilitating the development of a wide range of innovative and competitive products and services related to the Islamic capital market, creating a viable market for the effective mobilisation of Islamic funds, ensuring the existence of an appropriate accounting, tax and regulatory framework for the capital market and enhancing the value recognition of the Malaysian Islamic capital market internationally.

To ensure that the overall regulatory framework facilitates the achievement of the vision and objectives of the Masterplan, key strategic imperatives have been formulated that involve adopting a full market-based regulatory framework across all capital market segments. This will include, among other things, implementing full disclosure-based regulation for the primary markets and moving towards risk-based supervision. The aim of these recommendations would be to ensure that market processes and disciplines complement the broad regulatory objectives as well as facilitate greater competition and innovation in the marketplace.

In addition, to ensure regulatory parity in the treatment of all participants in the capital market conducting similar activities, it has been recommended that full functional regulation be implemented. Further efforts will be pursued in achieving functional regulation where capital market activities are regulated according to function rather than institutional form. Within a 'seamless' regulatory framework, gaps and overlaps in regulation of capital market participants undertaking comparable activities will be minimised, thus reducing the scope for regulatory arbitrage. Furthermore, the Masterplan recognises that in order to cultivate an efficient and competitive environment for capital market services there must be equal regulatory burden on all players offering similar services.

Malaysia's capital market intermediaries and institutions must be attuned to the present and potential opportunities afforded by available state-of-the-art technology. As such, the Masterplan makes recommendations to promote continued technological innovation in the market, enhance the efficiency of market infrastructure and facilitate the acceleration of capital market development.

A further challenge in achieving the six objectives is to nurture a pool of highly skilled human capital, and increase levels of investor awareness. The Masterplan has identified training initiatives aimed at enhancing market skills and providing greater investor education. The SC's investor education programme will be further developed to enable investors to make informed investment decisions and increase investor understanding of their rights and responsibilities.



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The Masterplan will be implemented in three phases, through an Implementation Task Force that will comprise of the SC and industry participants. "We are not going for a "big-bang" approach for implementation. Changes will be pragmatic and phased based on appropriate criteria, including market and regulatory readiness," Encik Ali said.

In addition, a Capital Market Advisory Council will be formed to advise the SC on issues such as the implications of new and potential developments in the capital markets, areas in the Masterplan that require revision to reflect evolving market developments and provide independent external views on the progress of implementation. The members of the Advisory Council will comprise primarily of leading domestic and foreign financial market participants and experts, and will be announced by the SC in due course.

The formulation of the Masterplan involved extensive consultation and discussion with a wide range of industry participants, professional bodies, capital market experts, academics and other regulatory agencies. The general public also made submissions, some of which were incorporated into the Masterplan.

"On behalf of the SC, I would like to thank all those who took the time and effort to share their views and provide invaluable input towards the formulation of the Masterplan. You have all made an important contribution towards the formulation of significant policies that will drive the development of the Malaysian capital market," said Encik Ali. The SC Chairman also extended his appreciation to the members of the Capital Market Strategic Committee for their contribution towards the Masterplan.

The SC stressed that the concerted efforts of all capital market participants and other relevant parties would be crucial to the realisation of the Masterplan. The success of the Masterplan hinges on the combined efforts and commitment of all concerned in the implementation process. The joint efforts of the market participants and the regulatory authorities will see the achievement of a common vision for the capital market and lay a strong foundation for its further progress thereafter.

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