

## **S P E E C H E S**

---

**Speech** : **Minister of Finance I/Minister  
By of Special Functions  
NEAC Executive Director  
YB Tun Daim Zainuddin**

**Place** : **Securities Commission  
Kuala Lumpur**

**Function** : **SC conference on Year 2000:  
Readiness of the Malaysian  
Capital Market**

**Date** : **12 April 1999**

### **Keynote Address - Challenges Facing Financial Markets in Addressing the Year 2000 Problem**

Encik Ali Tan Sri Abdul Kadir  
Pengerusi Eksekutif Suruhanjaya Sekuriti  
Ahli-Ahli Lembaga Pengarah  
Tuan-Tuan dan Puan-Puan Yang Dihormati sekalian  
Assalamualikum Warahmatullahi Wabarakatuh dan selamat sejahtera

1. Terlebih dahulu saya mengambil kesempatan di pagi yang berbahagia ini untuk mengucapkan terima kasih kepada pihak Suruhanjaya Sekuriti kerana sudi menjemput saya merasmikan Persidangan Tahun 2000 ini. Saya juga mengambil kesempatan pada hari ini untuk mengucapkan tahniah kepada Encik Ali di atas perlantikan beliau sebagai Pengerusi Eksekutif Suruhanjaya Sekuriti yang baru. Tidak lupa juga saya ingin melahirkan setinggi terima kasih kepada YBhg. Datuk Munir Majid, yang telah memberi perkhidmatan penuh cemerlang semasa memegang jawatan Pengerusi Eksekutif. Kepada ahli-ahli lembaga pengarah Suruhanjaya yang baru dilantik, saya berharap mereka akan menjalankan tugas mereka dengan amanah dan penuh tanggungjawab.

2. Ladies and gentlemen, it gives me great pleasure to be given this opportunity to address you this morning. I am especially pleased that the Securities Commission has taken the initiative to organise this event to focus attention on the critical issue of the Year 2000 problem. I hope this conference will provide a valuable forum for sharing information and experiences on the Year 2000 conversion challenge and foster a shared sense of purpose in tackling this problem.

3. The Year 2000 problem or Y2K problem poses a challenge to every country, every organisation, every government agency, every market institution, and indeed every piece of critical infrastructure in the world. While the extent of the Y2K problem may

## S P E E C H E S

---

vary widely, no country or sector is immune from it, or can afford to ignore its impact. The Y2K problems that exist within software programs and embedded computer chips should be repaired by January 1st, 2000 in order to prevent affected systems from generating erroneous results or cause them to malfunction. Whilst this may sound like scare-mongering, we cannot afford to be complacent.

4. Some people think that Y2K has been turned into a millennial horror story. They argue that computer nerds use the scare tactic in order to persuade the chief executive of corporations to hand out millions of dollars to fix the problem he cannot see. Others argue that the more closely we examine the Y2K doomsday scenario, the less is the scenario likely to take place. Many systems and equipment will continue to work after 1st January 2000. Meanwhile, corporations, especially those with greater risk exposure, are rushing with their Y2K compliance programme to meet the dateline. Already reservations for airlines and hotels have started booking for 2000. Since the different computer systems are linked up throughout the world, the problems that crop up would test how well the converted systems are working together.

5. Whatever side of the argument you are on, the Y2K problem is too important to ignore. Nearly all aspects of the economy are potentially at risk because of the widespread dependence on the core infrastructure services, such as transport, water, power, and telecommunications systems. It is especially important for the financial markets. Financial sector organisations such as banks, exchanges, clearing organisations, securities firms, and insurance companies are highly dependent on advanced computerised systems for managing and transmitting information, and effecting and settling transactions. Many financial firms maintain automated linkages with correspondents and customers, both domestically and internationally. Even if one firm or one country solves all its own problems, the complex interdependencies between companies and countries mean that no one can be certain they are safe. An operational breakdown resulting from insufficient Y2K preparations by any one of them may have an impact on participants across systems.

6. The unprecedented scope of the Y2K problem presents a formidable management challenge. Substantial management resources are needed to ensure that affected systems are rectified before the January 1st, 2000 deadline. The tendency in these turbulent times is to focus on day-to-day concerns, and to leave future problems to be dealt with later. This tendency must be strongly resisted. It is the responsibility of the management of every organisation to identify and address their Y2K risk exposures without delay.

7. Companies should not wait for the last minute to look for a quick fix to the problem because a rush job creates other problems. We should complete our Y2K preparations and provide full information to the public so that markets can operate as smoothly as possible during the rollover to the new century.

## **S P E E C H E S**

---

8. The Government recognises the importance of Y2K and is giving full attention to complete the Year 2000 preparations. The Government has allocated RM850 million for the Y2K programme in the public sector to demonstrate our commitment to the programme. This amount includes RM470 million from government sources and US\$100 million from World Bank loans. Through the National Y2K Steering Committee under the Ministry of Energy, Communications and Multimedia, the Government is monitoring the progress in critical sectors such as energy, telecommunications, financial services, transportation, health, oil and gas, water supply and sewerage. Special attention is also given to small and medium scale industries (SMIs) because of their significant position in the business supply chain.

### **Disclosure and transparency**

9. The interdependence of financial institutions and markets makes it very important for firms to share information on the status of plans and preparations on Y2K. I believe that accurate and timely information is the best antidote to the misinformation, which is likely to increase as we get closer to the critical dates. Market participants should be forthcoming about the steps they have taken on their Y2K conversion. Firms that disclose their status in public forums will set an example for other firms and reassure the market with this information.

10. The question of certification is another issue connected with information disclosure. External parties, whether auditors or examiners, cannot realistically certify Y2K compliance. The best that they can do is focus on the effectiveness of the process within an organisation that provide the management and the authorities on the use of "best practices". This should not be seen as a substitute for an organisation's own due diligence, an area in which internal audit departments have traditionally played a leading role. Internal auditors should help firms develop their Y2K disclosures.

### **Co-operation and information sharing**

11. I would say that the single most important advice that can be given on the Y2K problem is to work in co-operation with others, including information sharing. Co-operation across organisations is also essential for developing joint industry initiatives, including testing programmes. For example, we have seen industry associations play a valuable role in raising industry awareness, providing a focal point for information sharing, and developing joint Y2K initiatives.

12. Co-operation is needed among the regulatory bodies, market institutions, market intermediaries and other relevant organisations to effectively address the problem within the financial markets. The various parties must share information and co-ordinate activities, particularly in relation to testing and contingency planning. Because of its potential impact on markets and investors, the Y2K problem is also a major regulatory

## **S P E E C H E S**

---

issue. I believe both the Securities Commission and Bank Negara Malaysia have devoted, and will continue to devote, substantial effort to the issue.

13. There should also be cross-industry co-operation. Most financial market participants are not accustomed to gathering extensive information from other industries, such as the telecommunications industry. Yet, financial firms depend on the proper functioning of sectors, such as transportation, electric power generation, and government services. Without co-operation and co-ordination among market participants, the lack of information flowing across sectors can hinder the progress of Y2K compliance programme. Such errors of omission in co-ordination can be far more significant than you might realise.

### **Testing**

14. Both internal and external testing should be done. It has been found that the internal future date testing phase has been crucial in uncovering remaining Y2K problems. Thus, in spite of extensive repair efforts, some problems cannot be isolated until internal future date tests have been performed. This underscores why every organisation must build in a programme of rigorous internal testing as part of its Y2K project plan, even for applications designed to be Y2K compliant. No institution should be allowed to go forward with a Y2K plan that does not allot ample time for internal testing.

15. External tests are conducted by an institution to assess the risks in repaired and internally-tested systems where they interface with systems of other institutions. For the most critical systems, in particular trading, clearing and settlement systems, external testing must be done, and should be done carefully.

### **Contingency planning**

16. Notwithstanding the best efforts of regulators and market participants, some Y2K problems must be expected. Therefore, we have to ask ourselves, what should we do in case something goes wrong? Market participants should have well-developed and well-tested contingency plans that provide a method for responding to the loss or degradation of essential services in an automated system and for maintaining the essential functions of the market.

17. I believe that our success in addressing the Y2K problem will ultimately be measured by our ability, and the public's confidence in our ability, to conduct business operations effectively on the first business days of 2000, and thereafter. Thus, contingency planning should be recognised as a legitimate exercise, not an admission that you expect failure in the core effort of preparing for the Year 2000.

## **S P E E C H E S**

---

18. In fact, the Government is also working on a National Y2K Contingency Plan Framework which highlights the scope of the work that needs to be done before and after January 1st, 2000. It also outlines the expected results, timeframes and milestones for their achievement. A complete National Y2K Contingency Plan is expected to be ready by June 1999.

### **Moving forward**

19. Whether the financial industry can rise to the challenge of Y2K and avoid serious difficulties will be determined by the actions taken by individual firms and the financial community between now and the Year 2000. To use scarce resources most effectively, there is the need to prioritise key areas and activities in order to achieve Y2K readiness for the critical business functions. At this point in time, the financial markets must focus efforts on final remediation measures, and implement necessary testing programmes and contingency planning.

20. The financial sector seems to be in the forefront of Y2K awareness and action within Malaysia. But there are no grounds for complacency because even for the "best practice" firms, Y2K projects are complex and challenging. It remains vital that the top management of firms gives high priority and strong support to Y2K projects. It is particularly important at this stage that firms give adequate effort and thought to address their testing needs, the amount of resources available, and development of Y2K contingency plans.

### **Conclusion**

21. Izinkan saya menyatakan di sini, kini hanya tinggal lebih kurang sembilan bulan sahaja lagi sebelum tahun 2000. Pihak pengurusan tertinggi sektor awam dan swasta perlu memberi perhatian serious mengenai usaha mengatasi masalah ini. Pihak berkuasa juga perlu terus menggalakkan sektor yang menyediakan perkhidmatan infrastruktur pemasaran membuat persediaan bagi tahun 2000. Organisasi-organisasi ini perlu meningkatkan pendedahan dan menghapuskan halangan-halangan yang menyekat perkongsian maklumat. Mereka mesti merancang terhadap kemungkinan berlakunya gangguan perkhidmatan. Pelaksanaan yang mencabar ini sudah pasti memerlukan komitmen tinggi, kerjasama dan kreativiti di pihak sektor kewangan.

22. Kita semua perlu meneruskan usaha menghadapi alaf baru. Saya penuh yakin bahawa usaha agresif para peserta pemasaran membolehkan kita membina keyakinan bagi memastikan sektor kewangan dapat memenuhi tuntutan ini sebelum 1 Januari 2000, iaitu, jika saya dibenarkan mengingatkan tuan-tuan dan puan-puan, hanya tinggal 263 hari lagi dari hari ini.

Sekian, terima kasih.