



S P E E C H E S

**Keynote Address by
Encik Ali Abdul Kadir
Chairman, Securities Commission, Malaysia
on the occasion of the signing of service level agreements between
Malaysian Issuing House Sdn Bhd, Malaysian Central Depository Sdn
Bhd
and Participating Banks in relation to the
Integrated Electronic Share Application System**

**Friday, 16 July 1999
Sheraton Imperial Hotel, Kuala Lumpur**

Distinguished guests, ladies and gentlemen.

First of all, I would like to thank MIH for inviting me to say a few words this morning. I would also like to extend my congratulations to MIH on this special occasion which heralds the launch of the integrated electronic system for share application, allotment and refunds in Malaysia. I am pleased to be present here today, to witness the signing of service level agreements between MIH, MCD and the seven banks¹ that will be participating in the imminent launch of the integrated electronic system that has been developed by MIH in conjunction with these organisations.

The launch of the integrated electronic system is another milestone in the enhancement of our public application and allotment process. Improvements to the process were first prompted by the difficulties encountered by the public in obtaining application forms during the Petronas Dagangan and HICOM share issues in early 1994. The first phase of reform began immediately when the Securities Commission ("SC") directed that share application forms be published in newspapers to supplement forms distributed by the conventional network of issuing houses, banks and stockbroking companies. At the same time, SC mooted the idea of an integrated, electronic "paperless" system that would span the entire application, allotment and refund process and thereby, increase efficiency and convenience for the investing public. Given, however, that ATMs are not accessible to the entire public population, its introduction was predicated on the assumption that electronic applications would co-exist with the manual paper-based share application procedure thereby allowing the public the option of applying for shares electronically or by paper.

The system would allow investors, who wished to apply electronically, to use ATM cards to subscribe for shares at ATM machines of participating financial institutions. Successful applicants would have the shares credited into their CDS accounts while unsuccessful applicants would have the application monies credited back into their bank accounts. The integrated electronic system would also involve the transmission of share application data from participating financial institutions to the issuing house where

S P E E C H E S

computerised balloting would be used to determine successful share applications during an IPO.

As the development and indeed success, of the integrated electronic system involved a number of parties outside the SC's regulatory ambit, the SC, in its role as facilitator, convened a Consultative Group comprising representatives from Bank Negara Malaysia, the Registrar of Companies, Bank Simpanan Malaysia, the Kuala Lumpur Stock Exchange, the Association of Banks in Malaysia, the Association of Merchant Banks in Malaysia and the two issuing houses, MIDF Consultancy and Corporate Services Sdn Bhd and Malaysian Issuing House Sdn Bhd, to oversee development and to cooperatively address technical and regulatory issues. At this point, I would like to place on record, the SC's appreciation and thanks for the valuable support and commitment of each of these organisations, in the development of this system.

While regulatory issues were resolved fairly expeditiously, technical development of the integrated electronic system took some time. This was mainly due to the stringent requirements imposed on issuing houses to ensure the utmost security and integrity of the integrated electronic system, including the appointment of independent systems auditors to examine each of the issuing house systems. This resulted in the issuing houses having to review and fine-tune their systems which, in turn, necessitated rigorous testing of each system change as well as the system as a whole. Nevertheless, MIH has come to the end of the long road of development, testing and review, despite some set-backs in the early stages. The reward for MIH's commitment has been first, the launch of the computerised balloting segment of the integrated system in late April this year, followed by the imminent launch of the integrated system which, I believe, will take place sometime next month.

Although the launch of the integrated electronic system has taken a long time in coming, it is heartening to note that it comes about in promising times. The recent surge in trading volumes and the climbing KLCI indicate improved market sentiment which augurs well for issuers as well as investors. Although only nine (9) new companies were floated on the KLSE in the first half of this year, all nine posted reasonable premiums. Given the positive economic outlook, it would not be unreasonable to expect more companies to seek listing in the coming months. This definitely augurs well for the issuing houses.

The imminent use of an electronic system for application and allotment of shares also coincides with the fast growing significance of electronic commerce in the financial services in general and the capital market in particular. SC's role in the inception of the integrated electronic system indicates that we have long recognised that developments in technology have and will continue to be a major impetus for innovation and structural change in the capital market. To this end, we believe electronic commerce is an area where the regulatory infrastructure should respond in a positive and timely way to facilitate market developments and not hinder innovation in market products and

S P E E C H E S

processes. Indeed, the implementation of the integrated electronic system is one of the many benefits to be gained from facilitation of market development in this area, towards increasing efficiency in the capital market and to better meet investor needs at lower cost.

The SC's first public comment on electronic commerce in the capital market was through a discussion paper on the regulatory and developmental challenges of e-commerce on the capital market which was released at a conference organised by the Securities Industry Development Centre in late 1997. At the moment, our efforts are concentrated on developing a framework for the orderly and effective implementation of e-commerce in the capital market, in line with national initiatives and international developments. The framework is being developed within the fundamental objectives of securities regulation namely, investor protection, ensuring fair, efficient and transparent securities markets and the reduction of systemic risk. More specifically, it will address the regulatory principles for e-commerce in the capital market, applying those principles to issues relating to markets, market participants and regulators and finally, identifying priority areas for reform.

Technology is not new nor strange to us in the financial services. The banking industry pioneered the use of electronic systems in delivering financial services to its customers through the use of ATM machines. And, indeed, as evidenced here today, technological advancement also brings about the convergence of industries and new partnerships. To this end, the SC looks forward to future cooperative efforts between participants in the financial services industry, particularly in facing the opportunities and challenges posed by the onslaught of electronic commerce.

On that note, Ladies and Gentlemen, I would once again like to congratulate MIH, MCD and the seven participating banks on the development of the integrated electronic system and to wish you every success with the launch of the electronic share application service.