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**Welcome Address
by
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at the Media Briefing in conjunction with the
release of the Consultation Paper on
"Framework for the Implementation of Electronic Commerce in the Capital Market"
at the Securities Commission
21 March 2000**

I have great pleasure today in welcoming you to the official release of SC's Consultation Paper on "Framework for the Implementation of Electronic Commerce in the Capital Market".

Today, we are living in the digital revolution. This is the technological age. The world as we know it is in the midst of a radical transition caused by rapid advances in technology. The convergence of computing, communication, content technologies has created an enormous opportunity for businesses to participate in electronic commerce (or "EC"). EC refers to the use of information technology to effect linkages among functions provided by participants in commerce, including businesses and consumers.

Technology has removed geographical barriers. The nature of the market is changing. This is not just for the sell-side but for the buy-side and retail as well. For example, the internet is offering individuals and institutional investors access to much of the trading information and functionality that was once the preserve of the professional desktop. We are seeing the democratisation of information and the commoditisation of trading. In the developed markets, there has also been tremendous growth in the retail market with on line brokerages. In the US, where this has taken off, it has extended from foreign exchange into equities trading as well as the fixed income and option markets.

In the wake of such rapid changes, the question we ask is "what do we do?" The SC believes that the way we can make sense of the future is by taking charge and not in just responding to it. Technology is shortening the cycle of innovation and the pace will not abate. It is key for us to keep abreast of technological changes, to take charge and not simply to respond to the change.

Ladies and gentlemen, with this philosophy in mind and recognising the national effort to leverage on IT to drive economic growth, the SC is taking a proactive stance to promote the use of technology solutions by market participants and market institutions. The SC believes that the development of EC in the Malaysian capital market is a collaborative effort with all relevant market institutions, market participants and the public investor.

The SC's role, as the regulatory authority for the capital market, is to review, clarify and amend the necessary legal and regulatory provisions in order to facilitate EC. This, I assure you we are committed to do. In keeping with technological changes, the SC will continue to perform its statutory functions under the Securities Commission Act 1993 in both electronic and non-electronic environment.



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The regulatory issues and challenges relating to EC that we face today are not unique to the Malaysian capital market, but also to all capital market regulators in the world. Hence, the SC is actively involved with other regulatory organisations to find solutions to the regulatory issues raised by EC at international fora. For example, the SC has actively participated as a member of the IOSCO Internet Task Force that published a paper called "Security Activity On The Internet". At the moment, the Internet Task Force may reconvene to study issues related to EC and the Internet in greater detail.

However, market participants must lead the development of the relevant market infrastructure to enable market participants and investors to take advantage of EC. We believe that while the SC, together with the exchanges and clearing houses, will oversee the development of the appropriate regulatory framework and market infrastructure to encourage EC, market participants must take the lead in exploiting the commercial benefits of EC. This is because EC provides a means for market participants to add-value to the services that are they currently offer.

Market participants must ensure that they are prepared to face the many challenges brought about by electronic commerce. Electronic commerce and electronic networking when combined together is a critical factor for business competitiveness and success. However, in Malaysia, electronic commerce is still in its infancy. Malaysian businesses are still exploring the potential that electronic commerce can contribute to their businesses and to find the most effective means and ways to exploit it to their advantage. Businesses have to be ready to deal with the increasing sophistication of technology and the needs of its end-users. Needless to say, electronic commerce will be the determining factor for the survival of businesses in the years to come.

In the securities markets, there have been striking industry responses to technological innovations in the areas of direct access to markets and in lowering transaction costs. Let me give you two examples. First, is the development of electronic communication networks or ECNs which is the competitive alternative to the traditional, physical exchange market. ECNs represent virtual or cyber exchanges and the more well known ECNs are Island, E-trade or Instinet. In the developed markets, there is already more business done by ECNs than by traditional exchanges. Over 60 per cent of world wide trading volume is done through ECNs. 30 per cent of Nasdaq's listed securities have been lured by the low cost of electronic order matching through ECNs. The second example is the development of on line brokerage. In the US, we see on-line broking systems mushrooming on the Internet. On-line broking services offered by E*Trade, Charles Schwab, Datek Securities and Ameritrade are dominating the US retail on-line broking market. These services provide discount brokerage which allow investors to trade at a much cheaper rate. According to a SEC report released in 1999 on on-line brokerage, there are currently 160 on-line brokerage systems operating in the US. Charles Schwab, the on-line trading giant in the US, has a market share of 23.8% followed by E*Trade with 16.4%, Datek Securities with 12.7% and Ameritrade with a market share of 11.1%. Besides the US market, these on-line trading systems have also attracted other investors from outside the US to trade using their services.

Ladies and gentlemen, it is the SC's view that Malaysian brokers will lose out in this competitive environment if steps are not taken promptly to compete effectively and aggressively. We believe that Malaysian brokers can and will come up with equally competitive services to local investors.



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In this respect, the SC envisions that it would play a proactive role to assist Malaysian brokers by creating an environment that is conducive to the development of EC in the capital market.

A starting point would be to ensure that the regulatory framework governing the Malaysian capital market does not pose undue impediments to the development of e-commerce and to innovations. The SC is fully aware that any reform requires consultation, broad understanding and consensus. In this regard, the SC wishes to see that all concerns, issues and challenges faced by industry, market participants, the financial community and the public at large receive ample and full attention in the consultation process.

As you may be aware, the Consultation Paper is one of the series of documents issued by the SC on EC. We had in 1997 issued a paper "Discussion Paper On EC and The Malaysian capital Market - Regulatory & Developmental Challenges". Recently, the SC announced its policy position in relation to various issues on trading of securities on the Internet. The first was in regard to a Policy Statement informing the public of the issues that needs to be considered by issuers before posting an offering on the Internet to ensure that the offers to be made does not contravene the Malaysian securities laws. The second was in relation to a warning to the public of an unapproved fund in the form of Capitalshare Fund offered by an investment company based in the Cayman Islands.

We hope that the one month consultation period will provide the forum in giving everyone an opportunity to express their views, ideas, suggestions and comments towards the introduction and implementation of EC in the capital market. We believe that EC cannot be developed independently of market institutions, market participants and investors. As such, we wish to solicit comments from every stakeholder in the Malaysian capital market. This will assist us in formulating a regulatory framework that is effective, pragmatic and equitable for all concerned. Most important, the EC framework must enhance the efficiency and competitiveness of Malaysia's capital market.

Before I conclude, permit me to give you a brief outline on the Consultation Paper which I believe has been distributed to all of you. The Paper basically highlights the recommendations that the SC views as necessary to facilitate the growth of EC in the Malaysian capital market. Other issues that are discussed in the Consultation Paper relate to the trading infrastructure and regulatory impediments that have been identified by the SC which would require reform. The presentation and the Q&A session that will follow suit will give all of you an insight as to the contents and issues discussed in the Consultation Paper.

Thank you

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