



Suruhanjaya Sekuriti
Securities Commission

"Sustaining Growth in Asia: The Role of Capital Markets"

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Honoured guests, ladies and gentlemen

Good morning,

I am honoured to be here today. I would like to thank CPA Australia for extending me their kind invitation to address all of you at this conference.

The theme and topics to be covered at this conference to my mind appear to be most timely, as the region moves into the 21st century. Asian economies are steadily recovering from the 1997/98 economic turmoil. New opportunities are being created for investors and other market participants as governments reform and rebuild their respective financial systems.

The pace of change, from a social and economic perspective, has been breathtaking. Driven by the currents of competition and technology, capital markets in this region are experiencing so many new challenges and changes that I cannot help but liken the phenomenon to Darwin's theory of evolution, except that developments are occurring at a much greater speed! Capital markets are gravitating towards new, more complex, structures which would not have been thought possible a decade or in some cases, even 5 years ago.

Against this backdrop, ladies and gentlemen, I would like to focus today on the topic of capital markets, which I believe will play an increasingly important role in promoting and sustaining growth in this region. I will also talk about the part that the accounting profession must play in facilitating capital market development through the promotion of good quality financial reporting and information disclosure by corporates. I would like to think that I can speak with some authority on both subjects, since the former is at the heart of my current occupation, while the latter was, of course, my calling for many years before I joined the Securities Commission.

The Role of Capital Markets

Capital markets are an important and efficient conduit to channel and mobilise funds to enterprises, and provide an effective source of investment in the economies they serve. They play a critical role in mobilising savings for investment in productive assets, with a view to enhancing a country's long term growth prospects, and thus act as a major catalyst in transforming the economy into a more efficient, innovative and competitive marketplace within the global arena.

In addition to resource allocation, capital markets also provide a medium for risk management by allowing the diversification of risk in the economy. A well-functioning capital market tends to improve information quality as it plays a major role in encouraging the adoption of stronger corporate governance principles, thus supporting a trading environment which is founded on integrity.

For a long time, emerging markets such as those in Asia were considered too small to warrant much attention. However, this view has changed rapidly as vast amounts of international investment poured into markets in this region, especially in recent years. Asian markets are no longer viewed as a static universe but as a constantly evolving group of markets providing attractive opportunities to the global investing community. This is evident from the combined market capitalisation of Malaysia, Hong Kong, Singapore, Korea, Taiwan, Indonesia, Philippines, and Thailand which has soared from US\$ 92 billion in 1980 to US\$ 1.8 trillion in 1999, a staggering multiple of 18 times in the short span of 2 decades.

Major economic upheavals, active privatisation efforts and reliance on market forces through the development of capital markets brought about unprecedented economic expansion. Average GDP growth for these "Asian Tigers" in the first half of the 1990s was almost 7%, compared to world GDP of about 3.7% over the same period.

History has shown that as the economic performance of a country improves, share prices generally rise, equity markets grow to be better organised and international investors become more active. This is evidenced by an expansion in the collective share of global market capitalisation of these countries, which grew from 4.4% in 1990 to 8% in 1996, after peaking in 1993 at 9.3%. Total foreign direct investments stood at US\$ 28.6 billion in 1990 and more than doubled to US\$ 60.6 billion in 1996.

Capital markets are said to have played a crucial role in supporting periods of technological progress and economic development throughout history. Among other things, liquid markets make it possible to obtain financing for capital intensive projects with long gestation periods. This certainly held true during the industrial revolution in the 18th century and continues to apply even as we move towards the so-called "New Economy".

The Asian crisis, with its painful lessons, serves to underscore the importance of capital markets. The crisis revealed major weaknesses in the region's financial markets, in particular, an excessive reliance on the banking sector and structural inadequacies. This has, in fact, provided Asian economies with a platform to address the flaws in their systems.

Although some measure of stability has returned to the region by capitalising on inherent strengths such as a sturdy work ethic, a skilled and disciplined workforce and through perseverance - qualities which have helped sustain high growth in the region for two decades - an essential imperative for Asia arising from the crisis has been to develop its capital markets to provide alternative sources of funding for companies and in doing so, achieve more effective mobilisation of investors' savings.

The restructuring of troubled companies for the last two years would not have been successful without the liquid and efficient capital market that we have today because the banks would not have been in the same position that they were before to rescue these companies.

The presence of active bond markets will help to buffer financial systems from future shocks associated with over reliance on short-term capital flows and bank lending, and enables better diversification of risks. Many Asian countries have already recognised these benefits and are vigorously working towards the development of their bond markets in the wake of the recent turmoil.

In Malaysia, we have taken active steps to set up the National Bond Market Committee and in July, the Act had been amended to make the Securities Commission the sole regulator of the bond market.

Capital markets also provide a valuable source of external finance as countries mature and begin their transition to the New Economy. Technology-related firms, for instance, often lack the required collateral and earnings streams to secure financing through traditional means. Capital markets offer the best alternative. Again, Asian capital markets have progressed significantly in this area by establishing specialist stock exchanges to cater for technology and other high growth companies. These exchanges have been, for the most part, successful in attracting significant investor interest.

On another front, the crisis has also highlighted serious deficiencies in the quality, reliability and timeliness of corporate disclosures stemming from a lack of good governance, transparency and accountability. This has contributed to a loss of investor confidence in the region, and the perception that these issues have not yet been properly addressed continues to have a lingering effect on investor sentiment.

Capital Markets and the Accounting Profession

Ladies and Gentlemen, before I speak on the role of the profession in the capital market, allow me to briefly touch on the challenges facing capital markets today.

The technology revolution is forcing a significant change in the way businesses are conducted and transforming relationships with customers. Within capital markets, advances in communications technology have provided investors with easier access to information and led to a greater tendency for investors to demand more direct participation in the market. For example the rapid development of online trading in United States, Germany and Korea attests to a growing preference by investors to take a more personal stake in managing individual financial portfolios.

The advent of technology will also undoubtedly increase the extent of globalisation, which in turn heightens the need for markets to meet global standards. This new era of technology and globalisation has set the platform for seekers of capital around the world to look beyond their own shores for financial resources. In order to attract investors, they will be compelled to ensure that their corporate cultures and practices are similarly benchmarked against international best practises.

Amidst this confluence of factors, it is incumbent on the accounting profession and regulators alike to be vigilant in safeguarding the quality of information disseminated to investors. Under no circumstances should investors be short-changed with poor quality financial information and corporate disclosures.

Ladies and Gentlemen, the rapidly changing landscape of today's financial markets calls for a re-evaluation of the accounting profession's role. Accountants and auditors are not bookkeepers, merely putting numbers together. Their role has expanded considerably and I dare say that they may be described as the "gatekeepers of financial truth". More than ever, integrity is demanded of members of the profession.

There is also a need for meaningful improvements to our systems of financial reporting. The accounting fraternity must work together to provide the ultimate customer, the investor, a value-added product, namely, quality financial information which forms the basis for sound decision-making. Ultimately, it is the investing public who will provide the region's capital markets the needed funds for economic expansion. Clear and understandable information is vital for investors seeking to invest large amounts of savings either domestically or in another country.

Comparable, transparent and reliable financial information is thus fundamental for an efficient and effective capital market. Solutions to enhance the quality of financial reporting within Asian markets must mirror developments in internationally accepted best practices.

The auditors among you play a vital role in this quest for high quality financial reporting. Independent auditors must earn the confidence of the investing public by adhering to high standards of professional conduct that provide an assurance as to the integrity and objectivity of services rendered. Without competent, independent firms to support the use of these internationally recognised accounting standards, there is little assurance that the standards will be consistently and appropriately applied.

Audit firms will need to ask themselves if the quality controls and procedures which have been used in the past will be equally effective in an environment of increasing globalisation and integration of capital markets. Audit firms must take it upon themselves to ensure that sound auditing practices are applied in conducting audits of issuers, particularly those that participate in markets throughout the world and answer to a wide spectrum of investors and other stakeholders.

Along with the auditors, CFOs and financial executives must ensure that the financial statements of the company not only satisfy the requirements of regulatory authorities, but should be of a sufficient quality to meet the needs of investors. I might add that these executives, who have been entrusted with the responsibility for maintaining an effective system of internal controls, should recognise its importance in achieving good governance. Indeed, CFOs need to even consider disclosing risk management to the investors.

On a final note, I would urge financial statement preparers to think about incorporating disclosures on shareholder value as a means of improving the quality of annual reports. While earnings and other conventional measures of performance remain important, members of the profession, together with the companies they serve, must look towards providing greater long-term value and serving the needs of a better informed and demanding investor base in discharging their obligations.

The Securities Commission has time and again emphasised the importance of shareholder value creation and has been at the helm of efforts to promote more explicit recognition of shareholder value considerations in decision-making as well as corporate governance reforms, to heighten awareness within the corporate sector that there must be greater accountability to the investing public.

We must not forget that a commitment to value creation for investors provides our markets with a competitive edge by creating a more conducive environment for investors, and essentially acting of a catalyst in propelling the region's capital markets forward.

Conclusion

Ladies and Gentlemen, the existence of deep and broad capital markets is absolutely crucial and critical in spurring the growth of a nation. We must learn from the lessons of the crisis and put our houses in order to ensure that the region is able to retain its position as an important player in the global economy.

I believe that Asia offers bountiful opportunities for investment. Its economies have not stagnated, and on the whole, significant efforts have been made to develop capital markets to further the growth of individual countries, which will also eventually benefit the region by enhancing its attractiveness as an investment destination for investors around the world.

I would like to take this opportunity, as a practising accountant for many years and now a regulator, to reiterate that the accounting profession is an important and essential ingredient in facilitating good governance, accountability and transparency among corporates.

As a parting message, I would like to say that the regulatory authorities and the accounting profession share a common goal, which is to ensure that investors have access to timely, relevant and reliable information about their investments, and I hope that we can work together to bring about the realisation of this important objective.

Thank you for your attention.

Securities Commission
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