

Keynote Address by

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**at the plenary session of the
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Yang Berbahagia Datuk Ali Abdul Kadir

Chairman, Securities Commission,

Members of the Securities Commission,

Tan Sri-Tan Sri, Datuk-Datuk,

Ladies and gentlemen.

Assalamu'alaikum warahmatullahi wabarakatuh and salam sejahtera.

1. I would like to take this opportunity to thank the Securities Commission for inviting me to deliver the keynote address at this plenary session of the 2001 SC-industry dialogue. The theme of this year's dialogue, 'Moving Ahead with the Capital Market Masterplan: Issues and Challenges', is indeed relevant and timely for a number of pertinent reasons:

" First, the government earlier this year released the Eighth Malaysia Plan for 2001-2005 and the Third Outline Perspective Plan for 2001-2010. The national financing requirements described in these plans imply a heavy burden for the country's financial system in the years ahead. Moving ahead with the Capital Market Masterplan will ensure that Malaysia has a more competitive and efficient means of mobilising funds for the future.

" Second, recent events have once again underscored the very real global challenges and uncertainties that the international financial system continues to face. Global challenges are now also Malaysia's challenges because our economy and financial system no longer operate in a vacuum. Moving ahead with the Masterplan will ensure that the Malaysian capital market is more resilient to shocks that transmit across the world's financial markets.

2. Let us therefore not be in any doubt over the significance of the Capital Market Masterplan-or about the

government's strong commitment to see it fully implemented. As the Prime Minister pointed out recently, the unveiling of the Masterplan seven months ago is a reflection of the government's seriousness and aspirations in creating a more efficient, competitive and resilient capital market for Malaysia. Now that we have the Masterplan to give us a clear sense of direction to where our capital market ought to be heading, the government has asked the SC to push ahead-and push ahead quickly-with efforts to develop the capital market.

3. But let me re-iterate that moving forward with the Masterplan is not the sole responsibility of the authorities alone. A more vibrant and effective capital market for Malaysia is a public good that will benefit every one of us directly. In order to achieve it, the industry must play its role too. In what is fast becoming an extremely competitive global environment, there is no room to pursue narrow sectional interests when the welfare of the nation is at stake. I am encouraged to hear that several of you have already begun your own initiatives in relation to implementing the Masterplan's recommendations. It is now incumbent upon the rest of you to follow suit.
4. In this regard, I would like to commend the SC in its consultative approach to encourage more collaboration among the capital market's various stakeholders. Indeed, the formulation of the Masterplan itself involved close consultation with the industry. The Capital Market Advisory Council, for instance, consisting of independent leading domestic and foreign experts in a wide range of areas in the financial market, provides an excellent forum for independent advice to the SC on implementation issues. The council's sub-committees afford closer deliberation and advice on more specific issues.

Ladies and gentlemen,

5. The dialogue you have been having with the SC, I believe, is testimony to its commitment in obtaining direct feedback in terms of constructive views from the industry. I am heartened to be informed that some useful discussions have taken place over the past two weeks. I understand you have raised some very important issues and have provided some useful feedback to the SC on how to proceed forward. The government lends its strong encouragement to these efforts and hopes that all parties will continue to leverage on these opportunities to facilitate our progress forward.
6. What I would like to do this morning is highlight some key areas in the Masterplan which the government views as urgent and of immediate priority.
7. A groundbreaking recommendation in the Masterplan which has far reaching implications on the market relates to the creation of a single Malaysian exchange which will be demutualised and listed on the stock market. Demutualisation, as the government views it, should not be a simple process of converting to a share-based entity. Instead, it should provide opportunities for the exchange to be better positioned to respond to the collective interests of broader stakeholders with the ultimate aim of becoming a more competitive and for-profit enterprise to serve as an efficient 'anchor' to the capital market
8. Going forward, the government supports the need to pursue international strategic alliances as part of the capital market's long-term strategy to attract critical mass, market liquidity and relevant expertise. A single exchange which is also demutualised and listed will certainly be in a more attractive position to negotiate such alliances.
9. It is also vital that we have a strong and competitive environment for intermediation services. We do not underestimate the importance of capital market intermediaries as they are the link between suppliers of finance and the users of capital and other financial products. With the increasing challenges posed by

international competition, only the fittest will survive so to speak. Malaysian intermediaries with, among other things, greater financial strength, quality human resources, sufficiently diversified revenue base and integrated services can gain a higher competitive edge in terms of increased efficiency and can withstand greater resilience to financial shocks.

10. With this in mind, the SC has implemented the stockbroking industry consolidation programme as part of its efforts to develop a group of well-capitalised domestic stockbroking companies, known as Universal Brokers which can provide efficient and cost-effective intermediation services. I have been informed that the brokers which have not consolidated are actively seeking a suitable merger partner. Inevitably, there will be some pre- and post-merger problems such as valuation issues, culture clash, integration of systems and so forth. However, I trust the brokers' foresight, resourcefulness and confidence in overcoming these problems. So far, the SC has taken a market-driven approach in encouraging consolidation. The government hopes that it will not be required to undertake prescriptive actions, and will be keen on seeing significant progress in this area soon.
11. A key topic which has been widely deliberated upon relates to the area of corporate governance. We have worked hard to improve the standards of corporate governance and transparency in this country and will continue to do so. Market participants, particularly the foreign investor community, are recognising our efforts. We do not want to see the results of our good work being disrupted by inappropriate behaviour of market participants. The authorities will not hesitate to exercise its enforcement powers on transgressions committed by market players. On this note, I would like to reiterate that corporate governance is not entirely the responsibility of the authorities. Market participants are equally responsible in discharging their professional responsibilities in this area.
12. The amendments to the KLSE Listing Requirements in the middle of this year effected the implementation of the Malaysian Code on Corporate Governance. I would like to highlight that the Code is not meant to impose an unnecessary regulatory burden on companies. It should be looked upon positively as a guide to creating a culture of good corporate governance for the benefit of the company and therefore its shareholders. Undeniably, companies which adopt effective corporate governance best practices should command a higher premium in shareholder valuation.
13. Moving on, I understand that the SC is working with the other authorities to undertake efforts in further streamlining the regulatory process to achieve regulatory parity in the treatment of all participants in the capital market through functional regulation. The government recognises this as an important issue and that there remain some areas which need to be further addressed to ensure a level the playing field for all market participants. In this regard, the government pledges its commitment to provide the necessary support to facilitate and expedite the implementation process.
14. The development of a vibrant and competitive investment management industry is a key area in developing greater liquidity of the Malaysian capital market. As part of the efforts to develop a more active industry, the government recognises that there should be greater liberalisation in certain areas of the industry. Equally as important, however, investment management companies should be more innovative and should further enhance the value of their products and services to cater the needs of domestic as well as foreign investors. Furthermore, the government also wants to see all major institutional investors play a more active role in adopting and promoting a culture of proactive shareholder activism, whether through their participation in the Minority Shareholder Watchdog Group or in any other relevant forum.

Conclusion

Ladies and Gentlemen,

15. The government is sincere in its efforts to develop a premium Malaysian capital market and we have full confidence that we can achieve our strategic goals. However, the government alone should not bear the responsibility of undertaking this huge task. It is encumbered on market participants to provide strong collective commitment and support to ensure that our market continues to be attractive and competitive in the wake of heightened global competition and economic uncertainties.

16. Our journey towards a more competitive, efficient and resilient capital market will undoubtedly encounter numerous challenges. Therefore, we must be strong and confident that we can overcome these challenges, and we should-in our Prime Minister's words- 'earnestly and zealously push through with the reforms marked out in the Masterplan, be prepared to learn the lessons from the financial crisis, and change the way we invest and conduct business'.

Thank you and have a productive day ahead.

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