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SEMINAR ON CORPORATE GOVERNANCE IN THE UNIT TRUST INDUSTRY

**A Keynote Address
by
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Introduction

Yang Berbahagia Dato' Megat Najmuddin Khas, President, Malaysian Institute of Corporate Governance and Federation of Public Listed Companies, Yang Berbahagia Dato' Abdul Azim Mohd Zaibidi, President of the Federation of Malaysian Unit Trust Managers, Council Members of the Federation, distinguished speakers, participants, ladies and gentlemen.

Salam Sejahtera and a very good morning to all of you. First, my thanks to the Federation of Malaysian Unit Trust Managers and the Malaysian Institute of Corporate Governance for inviting the Securities Commission (SC) to deliver a keynote address at this Seminar.

As some of you may recall, the Finance Committee on Corporate Governance had in March 1999 released the " Report on Corporate Governance" . This seminar will give us an opportunity to take stock of where we are today and to have a discussion of where we see ourselves in the future, particularly with respect to corporate governance in the local unit trust industry.

The Finance Committee on Corporate Governance had also issued a " Malaysian Code on Corporate Governance" in March 2000 which focused mainly on public listed companies. The Code identifies a set of guidelines or practices intended to assist public listed companies in designing their approach to corporate governance. However, in this regard, I believe there should be no boundary in the application of the principles of corporate governance. It is expected that in time, these governance practices should spill over to other types of companies as well, including companies involved in the investment management industry, such as unit trust management companies, asset management companies and trustees. By adopting relevant key principles contained in the Code, the respective companies could enhance the standards of governance in their respective organisations. For this, I would like to congratulate the organisers, the Federation of Malaysian Unit Trust Managers and the Malaysian Institute of Corporate Governance, for organising a " Seminar on Corporate Governance in the Unit Trust Industry" at such an opportune time.

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Ladies and gentlemen,

What is "corporate governance"? The Finance Committee's "Report on Corporate Governance" defines corporate governance as the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interests of other stakeholders. The "Code on Corporate Governance" set out basic principles and best practices on structures and processes that companies may use in their operations toward achieving the optimal governance framework. The main principles of the Code, among others, dealt with the principal responsibilities of Board of Directors, Audit Committee, relationship between companies and shareholders, financial reporting and internal control.

This seminar sees us exactly one month after the release of the Capital Market Masterplan by the SC. The Capital Market Masterplan had also made, among others, several recommendations on strategic initiatives to develop a strong framework for corporate governance and shareholder value recognition in the Malaysian capital market. The Malaysian capital market must have a transparent, accountable and performance-oriented corporate sector that offers value-focused investment opportunity to investors. This would call for a high level of, and appropriate mechanism for, active corporate governance in the corporate sector.

The Capital Market Masterplan also call for the promotion of a vibrant and effective investment management industry and a more conducive investment environment for investors. Thus, it is imperative that companies involved in the investment management industry also adopts good corporate governance to enhance business prosperity and corporate accountability in order to realise its long term shareholder value, whilst taking into account the interest of other stakeholders like the unit holders.

In the unit trust industry, the need for good governance should also be extended to the unit trust funds itself, which is managed by the unit trust management companies. Unit trust management companies are accountable for its actions whilst managing the fund and thus, the principles and practices of good governance should be adopted, with the ultimate objective of realising long term unit holders value.

The unit trust industry plays a very important role in mobilising public savings and channeling the funds to the capital market. The local unit trust industry has been growing rapidly in recent years despite the economic downturn and volatile stock market conditions recently. As at 31 December last year, there were 34 unit trust management companies managing a total of 127 unit trust funds as compared with 31 unit trust management companies managing only 84 funds in December 1997. There were altogether 18 new funds launched last year, which increased the total approved fund size in the industry to 90.351 billion units from 55.515 billion units as at 31 December 1997. As at 31 January 2001, the net asset value of the unit trust industry is worth RM46.09 billion representing approximately 9.74% of the

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KLSE's market capitalisation. The number of accounts maintained by unit holders as at 31 December last year increased to 9.58 million from 8.26 million as at 31 December 1997.

As shown by the statistics, unit trust management companies manage large amount of public funds. Parties that are involved in the unit trust industry would need to continue working towards the adoption of good corporate governance in the industry. The adoption of good governance by unit trust management companies is vital as it will promote accountability and this would help to enhance investor confidence in the unit trust industry.

Ladies and Gentlemen,

Directors of unit trust management companies, Investment Committee of the schemes, trustees and fund managers should be accountable for their acts. As such, it is imperative that these persons have a clear understanding of what their responsibilities are, and to act professionally and ethically as well as have a reputation of doing so.

Board of Directors

The Board of Directors of a unit trust management company is the main protagonist in the administration of the company's policies and direction. The Board must understand the management company's operations in all aspects and should take an active role in the affairs of the unit trust management company. The Board should, amongst others, review and adopt a strategic plan for the company, oversee the conduct of the company's business to evaluate whether the business is being properly managed and identify principal risks and ensure the implementation of appropriate systems to manage these risks. Furthermore, the Board should have succession planning and review the adequacy and the integrity of the company's internal control systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Investment Committee

The Guidelines on Unit Trust Funds requires the establishment of an Investment Committee for every unit trust scheme. The Investment Committee is primarily responsible and accountable for the overall management of the scheme. Suffice to say, the Investment Committee should adopt principles and practices of good governance in the investment management of the funds. Among others, Investment Committee should ensure that the scheme is managed professionally by the unit trust management company, or any of its delegates, and in accordance with the fund management procedures. The Investment Committee should also monitor the scheme's performance, identify principal risks and ensure the implementation of appropriate systems to manage these risks. Investment Committee should also ensure that the investment policies and strategies are consistent with the

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scheme's objective and provisions of the deed. The ultimate objective is to realise unit holders value, whilst protecting the unit holders' interest.

Audit & Compliance Committee

Although there is currently no formal requirement to establish an Audit & Compliance Committee at the unit trust management company, it is a desirable effort and good corporate governance to establish such a committee to oversee internal control and compliance issues.

The internal audit and compliance department play a very significant role in evaluating and reporting on the adequacy and effectiveness of internal controls and compliance programmes established and maintained by the unit trust management company, which can then be reported to the Audit & Compliance Committee for further action.

The Audit & Compliance Committee should comprise independent members of the Board. As stated in the Code, one of the principal responsibilities of the Board includes ensuring the adequacy and integrity of internal controls and compliance programmes at the company. Thus the formation of such a Committee could facilitate the Board in discharging its duties.

Trustee

In the unit trust industry, trustees and unit trust management companies have a fiduciary relationship with unit holders. As such, trustees stand to play a key role in promoting corporate governance in the industry. Such heavy duties and responsibilities require trustees to demand high standards of corporate discipline and accountability at the unit trust management company. Trustees should ensure that unit trust management companies have proper procedures and processes.

In view of the important role that a trustee will play, the trustees should continue to take a pro-active approach in discharging their duties and in monitoring the activities of the unit trust management companies to ensure compliance as well as protect the interest of the unit holders.

Fund Managers

The fund managers for the unit trust schemes are responsible for carrying out their duties in fund management activities in accordance with the policies, strategies and procedures set out and approved by the Investment Committee. In this regard, the fund managers external to the unit trust management companies should also adopt the principles and practices of corporate governance in their organisations.

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In addition, unit trust fund managers can also contribute towards a more liquid, competitive and vibrant capital market. An ancillary benefit of a more active domestic institutional participation in the capital market, such as by unit trust schemes, will foster more institutionally based shareholder activism, and as a result, encourage stronger corporate governance in the local capital market.

Training and Education

Ladies and Gentlemen,

One of the most important elements in the Finance Committee recommendations is in its emphasis on training and education for directors; but peculiar to the unit trust industry, this should also include Investment Committee members and other industry participants who can contribute to promoting and enhancing corporate governance. Therefore, the industry is urged to develop appropriate programmes for this purpose, which is intended to provide better understanding of their responsibilities under the common law and statutory requirements. In this regard, I applaud the efforts of the organisers as this seminar is a good step towards this direction.

Market-Based Regulation

One of the recommendations of the Capital Market Masterplan for the investment management industry is a move towards a more market-based approach to regulation. Under the market-based regulation, the approval process is expected to be streamlined so that industry may be able to reduce operational costs. Further, the current restrictions imposed on the industry may be eased, or perhaps in some cases, removed entirely. The use of broad-based standards, as oppose to prescriptive rules, is expected to provide a balanced framework that facilitates innovation, while providing appropriate regulatory and market-based incentives for good governance and investor protection.

However, such a move will be made only upon satisfactory assessment of market readiness. Corporate governance practice will feature prominently in such assessment of the market readiness. Good corporate governance at all levels in the investment management industry is imperative to instill investors' confidence in the industry. The corollary of having a more market-based approach type of regulation is the trust that regulators and investors can place on the companies. A good corporate governance culture practiced in the unit trust industry would play an important part in building such trust. On the other hand, any perception of poor corporate governance in the industry even by a few players may undermine investors' confidence in the unit trust industry.



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Conclusion

To conclude, ladies and gentlemen, I believe the adoption of the principles and practices recommended by the Finance Committee in relation to corporate governance will provide the unit trust industry participants in Malaysia with a foundation for the enhancement of corporate governance practices. Nevertheless, these are just rules, statements and proposals and they are of no use if the participants in the unit trust industry do not understand its objectives and hence do not put the rules, statements and proposals into practice.

With the advent of competition and globalisation, local unit trust management companies must place great importance on its reputation and success. It is incumbent that industry participants take steps to build up its reputation in this age of intense competition. Investors who intend to place long term money into unit trust schemes will likely choose those with good governance standards. Remember, there may be a likelihood that investors who are not satisfied with the standard of corporate governance of a particular unit trust management company will vote with their feet.

I trust this seminar will contribute towards a better understanding, and the enhancement of, corporate governance in the unit trust industry. I hope you will have a productive session.

Thank you, ladies and gentlemen.

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