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"Going Forward with the Capital Market Masterplan"

Keynote Address

by

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at the

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"Proceeding as Planned"

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Honoured guests, ladies and gentlemen:

Thank you for inviting me to speak to you this morning. It has been just over two months since the Capital Market Masterplan was officially launched, and I am pleased with the very positive responses it has received locally as well as internationally. The Masterplan has been commended by a major regional publication for being "extraordinarily comprehensive and forward-looking", laying out exactly when things are to be implemented, in what order and by who, with a "seriousness of purpose". The Masterplan, as you know, was developed through a thorough process of consultation with all stakeholders to ensure the strategic and orderly development of the Malaysian capital market over the longer term. It sets out a vision for an internationally competitive and highly efficient capital market for Malaysia, supported by a strong and facilitative regulatory framework.

This vision is to be achieved through six strategic objectives focusing on issuers, investors, market institutions, market intermediation, the overall regulatory framework and the Islamic capital market. These in turn are addressed by a host of recommendations-152 of them to be precise! Clearly, we are very aware that the effective and timely implementation of these recommendations will be key to the success of the plan from now on, and let me assure you that every effort is being made to ensure that it will progress smoothly.

Of course, it is important to recognise that planning for the long-term is never easy, especially in the context of the rapid changes affecting capital markets. There may well be developments that affect implementation timeframes and other details of certain recommendations. Nevertheless, rest assured that in going forward, the strategic philosophy of the Masterplan will be the foundation on which our policies will be built, and that we will continue to be guided by the fundamental rationale that underlies each of the objectives and strategic initiatives described within the Masterplan.

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Implementation of the Masterplan thus far

As far as the implementation of the Masterplan is concerned, the count is underway and we are already beginning to tick off many of the recommendations that were made. Let me say at this point, that while proceeding as planned with the Masterplan, we are also adopting a very pragmatic approach to implementation, as was stated in the Masterplan itself. We will not be rigid and insist on things regardless of circumstances; as these change, so too might the timing of recommendations. But rest assured that they will be implemented.

With regard to developing a stronger and more competitive environment for intermediation services, following the announcement of the Securities Commission's (SC) Policy Framework for Stockbroking Industry Consolidation during the second quarter of 2000, we have granted Universal Broker status to four firms, and we are currently in the midst of processing one more application. While I am on the whole satisfied with the current progress of stockbroker consolidation, I look forward to stronger efforts by the industry and will be closely be monitoring developments.

In relation to the primary market, we are stepping up our efforts to deregulate the issuance environment and to adopt a more market-based approach towards the fund-raising framework. Many initiatives to develop the bond market have been undertaken already, including the release of guidelines on asset-backed securitisation in early April this year. Asset-backed securities (ABS) form an important component of a deeper and more active bond market, and the guidelines serve to facilitate securitisation transactions as well as the issuance of ABS. The guidelines are only the first step towards developing asset securitisation in Malaysia and further efforts will be focusing on among other things the tax and accounting framework surrounding securitisation transaction. The SC is currently working closely with the Asset Securitisation Consultative Committee, comprising industry participants, on formulating further recommendations to the National Bond Market Committee.

Consistent with the Masterplan, the SC will also be making announcements very soon on measures to facilitate equity-raising and financial restructuring. Going forward, the SC will be re-examining the initial public offering (IPO) framework with a view to widening the choice of financing instruments available to issuers, reducing constraints on the allocation of securities, improving pricing mechanisms and enhancing the role of underwriters. The SC is also looking to introduce greater flexibility in restructuring and capital-raising exercises, and is targeting the implementation of a full disclosure-based system of regulation by the year end, subject to market readiness and preparedness. Here, we are certainly being very careful and are conducting a survey on market readiness, as we do not want to endanger market confidence.

Fostering a liquid and active market for secondary trading of securities is also a major initiative of the Masterplan, and several proposals are aimed at making the environment more conducive for all investors. These include the recommendation to streamline administrative procedures and rule-structures in relation to portfolio investments, which is clearly reflective of

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the government's recent announcement to remove the 10% levy on repatriated profits from portfolio investments. In order to ensure an even more conducive investment environment to facilitate the participation of all investors, the SC is working closely with the Kuala Lumpur Stock Exchange (KLSE) in further streamlining investment procedures in order to reduce costs of investing, and we hope to be able to make an announcement on it soon.

During our continuous consultations with international fund managers, we had received a lot of representations that although Malaysia was generally seen as an attractive investment destination, administrative burden and costs discouraged portfolio flows into the Malaysian capital market. We hope that the removal of the exit levy, among others, answers many of their concerns and that this will augur fresh portfolio investments in the near future.

Liquidity is key

Those of you who have read the Masterplan-and I hope that most of you have-will notice that the document explicitly recognises and emphasises the need to build and sustain liquidity throughout. Why is this an important issue in going forward? Because investors prize markets in which they are able to make fast and cheap transactions without large price fluctuations. The more the markets are liquid, the more they are likely to be efficient because prices can reflect information quickly. They are also more likely to be stable because large trades have less of an impact on prices. This produces a positive feedback effect in which markets become even more attractive to participants and generate a greater volume of trades. This is one reason why exchanges tend to become natural monopolies.

But even natural monopolies these days are beginning to feel the heat from greater competition, thanks to technology and deregulation. Exchanges are no exception. Remaining internationally competitive has become much more of a challenge. Market participants are looking for large pools of liquidity, low intermediation costs, regulatory soundness and certainty, and high levels of transparency. As a result, there is greater international competition for order-flows and securities listings.

Once markets begin to lose liquidity, a vicious round starts to occur, accompanied by increased market risk and higher costs of capital. Ultimately, market institutions risk becoming no longer relevant to their users. Some Latin American markets, for instance, have already begun to experience this first hand, and have seen their listed companies migrate to more competitive markets. But this is not just a concern of emerging markets. Even more developed, internationally-reputable but smaller markets are coming to terms with the very real prospect of losing their national " franchise" .

Scale is therefore vital in ensuring that the capital market can effectively mobilise and pool individual savings to finance investment; efficiently allocate funds to the most productive investments; and allow for risk diversification among investors. At the same time, it is also vital that the market offers value to its users-by presenting a wide variety of investment

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opportunities within a liquid, efficient, secure and transparent environment at competitive costs; by offering competitive costs of raising funds; and by offering a high degree of breadth and depth so that issuers are able to obtain appropriate value recognition of their securities.

In this regard, one of the things the Masterplan aims to do is to foster a vibrant and competitive investment management industry. A central element of the plan's recommendation involves increasing the amount of funds available for management, and to enlarge the number and diversity of players with access to those funds. Among other things, the plan recommends that institutions such as Employees Provident Fund (EPF) should further outsource the management of their funds. At the same time, the Masterplan recommends that measures be pursued to facilitate the development of the private pension fund industry. In addition, the SC will streamline the process of introducing new investment management products as well as the licensing framework for investment management.

The Masterplan also focuses heavily on minimising transaction costs, and recommends a further reduction in the System on Computerised Order Routing and Execution (SCORE) and the Securities Clearing Automated Network Services (SCANS) fees, as well as a lowering of the SC levy. In particular, the plan recommends that stamp duty should be capped at RM200 per contract for all trades on the KLSE. It is also the SC's assessment that the application of stamp duty should be further reviewed with a view to the possibility to its eventual removal altogether, in light of international practices in other jurisdictions. Cost reduction is also being sought through a more competitive environment for intermediation services. In line with the Masterplan's recommendations, stage 2 of the deregulation of brokerage commissions is expected to take effect from July 1st this year, with the SC currently reviewing the possibility of making commission rates fully negotiable for all trades (subject to a cap of 70 basis points).

And let us not overlook the role and position of Malaysia's market institutions in building liquidity. It is vital that the national market retains its franchise over Malaysian listings and order-flows. There is now aggressive competition for a share of global investment activity. Therefore, our market institutions must be nothing short of internationally competitive, presenting investors with a liquid, efficient, secure and transparent trading environment. They must be widely recognised as providing value to all stakeholders. There must be no doubt that Malaysian market institutions represent the foremost venue for the listing, trading, clearance and settlement of Malaysian-exchange traded securities and futures.

A single Malaysian exchange

A key area of priority therefore lies in the creation of a single Malaysian exchange, including the markets for high growth companies as well as for derivatives, through the merger of all existing exchanges. A consolidated and more commercially-oriented exchange for Malaysia would allow for economies of scale and scope to be tapped, and would facilitate the application of appropriate technological solutions. It would be better positioned to respond to

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competitive pressures. The consolidated exchange should demutualise and operate as a for-profit entity to ensure that it has an appropriate governance framework to drive the future development of the exchange. The Masterplan also proposes that the demutualised entity be listed on the stock market.

As far as the exchanges are concerned, we have already seen the merger between the Kuala Lumpur Options & Financial Futures Exchange Bhd (KLOFFE) and the KLSE, between the Malaysian Monetary Exchange and Kuala Lumpur Commodity Exchange to form Commodity and Monetary Exchange Malaysia (COMMEX), and between the Malaysian Derivatives Clearing House and the Malaysian Futures Clearing Corporation. While negotiations between KLOFFE and COMMEX appear to be progressing smoothly and are at relatively advanced stages, I look forward to the eventual cementing of a formal agreement soon. The inclusion of Malaysian Exchange of Securities Dealing & Automated Quotation Bhd (MESDAQ) within the merger process, as proposed by the Masterplan, will establish a more cohesive market for high growth companies in Malaysia, the main priority being in ensuring that the benefits of consolidation are successfully tapped. However, it is imperative that MESDAQ continues to retain a unique identity in the merged entity to allow it to capitalise on brand awareness.

In addition to the establishment of a consolidated exchange, there is also a need, in moving forward, to ensure a more cohesive and cost-effective secondary market environment. Therefore, a common trading platform and an integrated clearance and settlement system for all exchange-traded products should be established following exchange consolidation. To facilitate this, the plan also recommends the creation of a single clearance and settlement institution for all exchange-traded products. Of course, the consolidated market institutions must also continue to meet international best practices and offer globally competitive cost-structures.

Conclusion

I have outlined for you some of the initiatives and imperatives in going forward with the Capital Market Masterplan. Given the Malaysian market's size compared to other competing markets, it is vital that we constantly re-define and re-invent ourselves. We must compare what we are and what we do against our present and potential competitors. In other words, we must develop a fresh attitude towards creating value and importantly towards enhancing value-recognition of our market both at home and abroad. Grandiose plans are out; highly-focused pragmatic strategies are in. I look forward to proceeding as planned with you down the path marked out by the Malaysian Capital Market Masterplan.

Thank you for your kind attention.