



S P E E C H E S

"Moving Forward with the Capital Market Masterplan"

**Special Presentation
by
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Ladies and gentlemen, good morning. First of all, I would like to extend my thanks to the organisers of The Malaysian Capital Market Summit 2001 for inviting me to speak here today. I am encouraged to see the increasing profile of this annual summit from year to year, testifying to the increasing prominence of the role of the capital market in Malaysia. It is good to see so many familiar, as well as new, faces here this morning. Because of the dynamic changes now taking place in our markets, I think you will find this year's conference particularly worth the price of admission!

Today, I have been asked to speak about the progress that has taken place in moving forward with the Capital Market Masterplan. Before I do so, though, I think it would be useful for us to first walk through a brief overview of the context in which the Masterplan was formulated. This will give us a better picture of its broader strategic importance before I go into in further detail on the implementation progress later on.

Background

We have seen major changes in global markets that have radically transformed the environment in which capital markets now operate compared to, say, ten years ago. To say that markets are becoming more dynamic and competitive is to state the obvious. There has been rapid growth in cross-border investment activity, increased international fund-raising and more cross-border mergers and acquisitions. We have even heard of increasing instances in recent months of aggressive wooing by other markets of our local issuers to raise funds overseas. While this may reflect the growing international recognition of the fundamental value offered by Malaysian companies, we at home nevertheless should be aware of these developments and take action accordingly to ensure that we do not fall behind in this regard.

S P E E C H E S

It was with these issues, among others, in mind that the Masterplan was formulated. Also, the need for a prompt yet carefully planned strategy in recovering from the regional financial crisis was a major driving factor behind the Masterplan. Plainly speaking, the need was clearly there to ensure that the Malaysian capital market would be well positioned to play its role in the nation's economic recovery and long-term economic development. According to the Eighth Malaysia Plan, this will require some RM1.5 trillion in total investment spending over the next 10 years. What this means that the capital market has to be able-and remain able-to play its role in effectively and efficiently mobilising funds to facilitate the achievement of our national aspirations both now and in the longer term.

Actions Speak Louder Than Words

Since the Masterplan was launched in February this year, the Commission has received quite a lot of feedback and positive responses from market participants both at home and abroad. But, as they say, actions speak louder than words. And in this case, the proof of the pudding is in the implementation process itself.

So where does one begin in implementing a plan that encompasses a three-pronged vision, 6 objectives, 24 strategic initiatives, 152 recommendations and takes up three volumes totalling over 400 pages?

Because of the wide scope of issues covered by the Masterplan, we have clearly stated from the outset that there are some elements of the overall strategy that are of immediate priority; and others that can be implemented more gradually over the medium- to longer-term. The precise details of the timing are clearly spelled out in the three Phases set out within the Masterplan, so I will not elaborate on them here.

The main point that I wish to make here is that work on priority areas that have been identified for early action is already underway, as doubtless you will already be aware. Those that are of a longer-term nature will be implemented more gradually, to ensure sufficient market readiness and the orderly development of all core areas of the capital market.

The Commission is co-ordinating of the progress of the implementation process through an internal Implementation Task Force. The appointment of the Capital Market Advisory Committee (CMAC) in March-comprising 15 senior domestic and foreign capital market participants and specialists-also provides us with a valuable source of expertise and independent feedback from both local and international perspectives. In short, you can be assured that there are strong and organised efforts being taken to implement the Masterplan's recommendations, and that a comprehensive and detailed progress schedule is being closely monitored.

S P E E C H E S

Indeed, I am happy to inform you that with just over six months since the launch of the Masterplan, more than 20% of its recommendations have already been completed or partially completed. Work is continuing for another 27% of " on-going" recommendations, such as education and training, which have no explicit deadline for completion. Over a quarter of the recommendations due by the end of phase 1 of the Masterplan, which spans 2001-03, have already been completed or partially completed, while another 20% are on-going.

Implementing the Masterplan

Ladies and gentlemen,

Now I would like to just focus on some of the key implementation measures that have been taken thus far.

A key priority in the Masterplan lies in the creation of a single Malaysian exchange. I am happy to note the finalisation of the merger process between the Kuala Lumpur Options and Financial Futures Exchange (KLOFFE) and the Commodity and Monetary Exchange of Malaysia (COMMEX) in June this year with the launch of the Malaysia Derivatives Exchange Berhad (MDEX). That same month, we also saw the signing of a Memorandum of Understanding between the KLSE and MESDAQ in relation to their proposed merger.

On the Commission's part, we have established a joint committee to facilitate the consolidation, demutualisation and listing exercise of the Malaysian exchange. The committee has met representatives from KLSE and MESDAQ and other relevant parties to obtain feedback, as well as discuss and work on major issues affecting the implementation process. While it is our stand that the entire process should remain driven by the principal parties involved-namely, the exchanges-the Commission is committed towards facilitating this exercise wherever possible to expedite its successful completion.

Moving on, current efforts under the stockbroking industry consolidation programme have seen the introduction of the first three Universal Brokers as well as the deregulation of restrictions on the scope of activity and branching for these companies.

In addition, the Commission is working closely with the relevant authorities and market players to develop greater liquidity on the Malaysian capital market through, among other things, the development of a vibrant and competitive investment management industry. For example, the Commission issued a Consultation Paper on Additional Requirements for Islamic Unit Trust Funds in August, to facilitate a wider range of Islamic collective schemes and enhance the integrity and credibility of Islamic unit trust funds. We are also undertaking additional efforts behind the scenes to develop other aspects of this industry. So please be rest assured that we are not ignoring our commitments in this regard!

S P E E C H E S

We have also seen that companies seeking to raise funds and restructure during the crisis- and, to be frank, even up to the first half of this year- have faced difficulties given the less-than-favourable capital market conditions. Clearly, steps are needed to further raise the efficiency of the fund-raising process and allow for greater flexibility and diversity in the way in which Malaysian companies can seek capital.

Even though the growing breadth and depth of the corporate bond market shows that it is quickly becoming an increasingly popular fund-raising option among Malaysian corporates, the Masterplan explicitly recognises that comprehensive measures are needed to develop the corporate bond market as a competitive source of financing. In this vein, we released Guidelines on the Offering of Asset-Backed Securities in April this year to serve as a first step towards developing asset securitisation in Malaysia. Further efforts are underway focusing on, among other things, the tax and accounting framework surrounding securitisation transactions.

In addition, amendments to the KLSE Listing Requirements, which took effect in June this year, saw the introduction of new requirements aimed at raising the standards of disclosure and conduct of directors and principal officers of public listed companies. Measures were also introduced to develop effective internal governance and enforcement mechanisms. Importantly, these amendments also effected the implementation of the Malaysian Code on Corporate Governance.

Also, a study to assess market readiness for the implementation of Phase 3 of the Disclosure-Based Regulation (DBR) programme commenced in April to ascertain if market participants are ready to move to full DBR by the end of this year. The study is already at the final stages of completion. Meanwhile, however, the Commission has already announced the introduction of several flexibilities to facilitate the issue, offer and listing of securities by Malaysian companies in May this year.

Ladies and gentlemen,

Pursuant and complementary to these measures, I am happy to announce today that the Commission has decided to accelerate the liberalisation of certain aspects of our guidelines on issues, offer and listing of securities in line with the Masterplan's overall strategy for the development of the Malaysian capital market. As such, we are introducing the following additional flexibilities in the regulatory requirements for fund-raising, listing and restructuring with immediate effect:

- For initial public offerings (IPOs) and listings on KLSE, flexibilities have been introduced in the Commission's guidelines that would allow companies to better structure their IPOs to suit their individual needs and prevailing market conditions. In this regard, we have made amendments to the requirements of public offers,

S P E E C H E S

placements, shareholding spread, retention of reserves and the types of instruments that can be issued and listed on KLSE.

- For listed companies in distress, we have introduced certain flexibilities to allow the injection of a wider pool of assets, as part of a restructuring scheme, into these companies. With these flexibilities, we hope to see a speedier process of restructuring by distressed listed companies.
- We have also liberalised the underwriting requirements for IPOs and rights issues. Basically, underwriting can now be carried out on a minimum subscription basis (which level will be left for the company and their advisers to decide). This will benefit not only distressed listed companies but also other companies seeking to raise funds on KLSE.
- Finally, we have also revised our guidelines on private placements of securities. The requirements for the placing out of securities have now been streamlined. Securities can also now be placed out to a wider group of investors than previously allowed.

These flexibilities have been formulated in close consultation with corporate advisors and benchmarked against the practices of other developed jurisdictions. By allowing companies more options in structuring their corporate proposals and responding to changing market conditions, we expect that the overall efficiency of the fund-raising process will be enhanced. This corresponds to the Masterplan's objective for the Malaysian capital market to be the preferred fund-raising centre for Malaysian companies.

Please bear in mind, however, that what I have outlined thus far is only a small selection of relevant developments in the overall implementation process. Importantly, a substantial amount of work is currently being carried out behind the scenes to ensure-as far as possible-the timely implementation of the Masterplan's recommendations across the board, even if no public announcements may have been made to that effect yet.

From the broader perspective, the Commission remains actively engaged at the international level with its counterparts in other countries (such as its involvement in the work of the CPSS-IOSCO Task Force on Securities Settlement Systems) to ensure that we remain involved in international capital market development, and to further propel the Malaysian capital market to internationally competitive levels.

S P E E C H E S

Conclusion

Before I conclude, though, I would like to emphasise that we will continue to adopt a very pragmatic approach to implementation, as is clearly stated in the Masterplan itself. Where possible and necessary, recommendations will be expedited. Where some deceleration of execution is required to allow for better market readiness, we will do that too. But it will be done transparently and with a clear revised timeframe made known (as was the case for the revisions to the second stage of liberalisation of stockbroking commission rates).

Nevertheless, while there will inevitably be challenges, we will not deviate from our overarching vision and objectives. The roadmap has been drawn, now it is up to you, as market participants, to examine it and plan your own journeys accordingly.

Nevertheless, we want to make sure that there is continuous two-way feedback between the Commission and those of you who are at the front-line of market activity. We view the continuous engagement of market participants at all stages of implementation as a very serious matter indeed; this will in fact be seen over in the next few weeks, as we will be starting our annual dialogue sessions with the industry shortly. The focus of the dialogue this year will be primarily on moving forward with the Masterplan.

In closing, I would like to extend my thanks for giving me your kind attention for this past half-hour. I hope that you will find the following sessions beneficial and informative as well.

Thank you.

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