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EMERGING MARKETS PROGRAMME

A New Dimension In International Co-operation: Some Possibilities

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Assalamualaikum w.b.t. and good morning ladies and gentlemen,

I hope you have had a fruitful discussion over the last few days. Since Monday, you have been considering issues related to the development of domestic capital markets within an international context. This morning I would like to shift your attention to the pressing issue of international regulation of capital markets. Indeed, this has been an area of extensive debate and discussion in many international fora, especially in the light of recent events.

The tragic events on September 11 and the launch of military action in Afghanistan have introduced a new element of uncertainty in financial markets all over the world. The attacks came at a time when the global economy was vulnerable, and has aggravated the fall in consumer confidence, both in the US and many other parts of the world. And as nobody can predict with certainty the duration, scope and outcome of the actions as a result of the September 11 attacks, international investors may be more risk-averse and assume more defensive positions, which in turn may affect the flow of capital to emerging markets.

In addition, the weaker global economy coupled with the ever-present forces of technology and globalisation, present an extraordinary set of challenges to capital market regulators, both in developed and developing jurisdictions. At such a critical juncture, it is vital that regulators strive to preserve investor confidence in the market, while at the same time, forge ahead with efforts of market reform and development, in order not to stifle or lose any progress gained from earlier efforts to strengthen and enable markets to be better positioned globally.

To achieve these aims, the role and importance of international co-operation cannot be understated. The need for more flexible and efficient information linkages and mutual support, particularly among emerging market economies, have intensified.

During the period of the September 11 attacks, the SC had benefited greatly from wide channels of communication that were established between International Organisation of Securities Commissions or IOSCO members, whereby information of the impact of the attacks

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on the markets and related crucial information were readily shared by member nations. This free-flow of information had provided us with updated accounts of events as well as regulatory and policy responses to the situation, and this greatly assisted us in evaluating and comprehending the regional and global effect of the attacks on industries, economies and markets. As Chairman of the Asia Pacific Regional Committee or APRC of IOSCO, I have made a call for greater information sharing especially in emergency situations such as that we have recently experienced.

I would therefore like to elaborate on the need for international co-operation on the two areas, which I had earlier highlighted as important for regulators to play a key role in, which is the preservation of investor confidence and the need for market development.

Co-operation for the Preservation of Investor Confidence

Ladies and Gentlemen,

Investor confidence in the capital market has been one of the biggest casualties of the September 11 attacks. The possibility of continued conflict at a global scale has increased the risks attached to investments. As we are not in a position to determine political outcomes, the focus of policies for emerging markets in this uncertain climate should therefore be on stabilizing and enhancing investor confidence. More than ever, international co-operation plays a vital part in shoring up efforts taken by individual jurisdictions, to improve both international and domestic business confidence to invest in emerging markets. Collaboration and mutual assistance in keeping regulators aware of the changes in the marketplace and building investor relations programmes are indeed key efforts to preserve confidence.

Another aspect of preserving investor confidence is combating market abuse. The lack of transparency, information and sufficient prudential controls in regulating international financial activities signals an acute need for greater co-ordination among international regulators. In complex financial activities that transcend national boundaries, no one regulator would have the complete set of information.

In Malaysia, we have made a conscious effort to increase co-operation between market regulators. Consultation with our counterparts elsewhere in the world has become a regular feature of the method in which we conduct our work. Co-operation in exchange of information as well as enforcement actions has been and remains one of the core areas of our international work. We have previously managed to enlist the assistance and co-operation of many foreign regulators in our investigations, which have provided us with material information and an avenue for further investigation in their jurisdictions. This is essential taking into account the nature of global markets: without this assistance we might have never been able to build a case against the transgressors.

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Allow me to briefly share our experience with you in this regard. We had been informed by our IOSCO counterparts of illegal and fraudulent financial activities outside of Malaysia through scams known as cold calling or boiler room operations. You have heard my Australian counterpart speak of this earlier in the week. Such scams have caused investors around the region and beyond to suffer losses. The SC had received some information from overseas investors and regulators, and as a result, initiated an investigation into three alleged illegal companies. This week, we issued a press release to our local press as well as to our counterparts abroad to warn the investing public against investing in such scams. The public was also encouraged to lodge a complaint with foreign regulators through the SC concerning any scams that they may be aware of.

In addition, we have formalized our pledge for international co-operation by entering into a formal Memoranda of Understanding (MOU) for the sharing and exchange of information as well as the assistance in enforcement actions. Malaysia has entered into 14 MOUs with capital market regulators from Argentina, Australia, Brazil, Chile, China, France, Hong Kong, Indonesia, India, Kenya, Poland, South Africa, Taiwan and Thailand.

Furthermore, the Asia Pacific Regional Committee of IOSCO has initiated a study towards a multilateral Memorandum of Understanding between Asia Pacific jurisdictions. It is heartening to note that all regional capital market regulators are fully committed to the benefits of a formalised co-operative commitment.

Within the international fora, several pertinent issues are currently being discussed in the areas of monitoring, surveillance and enforcement. The East Asian crisis has brought up many issues regarding international regulation of markets and the investments and risk exposures of highly leveraged funds, for example. The Financial Stability Forum is considering areas of co-operation between regulators in monitoring vulnerabilities of complex financial institutions, which have extensive cross-border activities.

Importantly, the current anti-terrorism campaign mounted by the US and its allies has included efforts to investigate and weed-out money laundering operations, making reforms to improve surveillance tools such as higher auditing and financial reporting standards all the more important.

Co-operation for Development

Ladies and Gentlemen,

I now turn to the need for continued market development in emerging markets. The SC has identified a blueprint and strategic objectives for development of the Malaysian capital market for the next ten years, through the formulation of 152 recommendations contained in its recently released Capital Market Masterplan (CMP). The implementation of the

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recommendations contained in the CMP is currently underway in order to achieve growth targets, which have been outlined in the plan.

The impact of the September 11 attacks on the market has heightened the need for structural reform to address weaknesses the market system. Market fundamentals need to be strengthened to allay the fears of investors, and the growth of the capital market will be essential in the medium to long term to attract more investors to the market.

With the increasing cross-border capital movement and the limited pool of global liquidity, the issue of international competitiveness of markets has come to the forefront. Moreover, international competition is no longer limited to the issue of cost. Increasing levels of sophistication in market participants has forced policy makers to review its market's competitiveness in terms of breadth of products, market structures and infrastructures as well as the regulatory environment governing our capital markets. As a result of global competitive pressures and the need to attract funds from limited global pools of liquidity, we have seen many markets, including emerging markets, adopt globally benchmarked regulations, accounting standards and business practices. This practice has resulted in a greater level of harmonisation of principles of regulation in the capital markets internationally.

As a developing market, the SC has found the interaction and co-operation with other markets and market regulators of immense benefit to our own developmental initiatives. We feel that active participation in international developments is necessary to in order to provide an emerging market view on issues. We feel that it is important to communicate to the international community the context of development in emerging markets as well as the problems and difficulties faced by emerging markets in achieving certain developmental targets. In the process of the development of internationally recognised standards, we aim to ensure that developing countries are not left behind or sidelined in crucial decision-making processes.

Other than IOSCO, the SC has also been involved in other international bodies such as APEC, ASEAN, the World Bank and the WTO, and so on, all of which have led initiatives relevant to the development of the capital markets nationally and globally.

Ladies and Gentlemen,

Let me just end by reiterating the fact that we are at a juncture where economic and market structures are under great challenge and review. To navigate in these treacherous waters, regulators must capitalize on the benefits of international regulatory co-operation, which is a valuable facility that can provide much needed support and assistance to regulators.

In short, effective and efficient regulation and development of capital markets can no longer be carried out in isolation. New forms of global co-operation must be established and intensified, to co-ordinate policy responses, and address difficulties that emerging markets will



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face in these uncertain times. I am confident that we can overcome our trials and tribulations if we confront them together, as a team, united by our common goal of ensuring the smooth functioning of the global economy.

Thank you.

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