

THE MALAYSIAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
(INSTITUT AKAUNTAN AWAM BERTAULIAH MALAYSIA)

MICPA 50TH ANNIVERSARY COMMEMORATIVE LECTURE

***“WHAT IS BURSA MALAYSIA’S VOICE TO EMBRACE THE GLOBAL
MELTDOWN WITH CONFIDENCE?”***

DELIVERED BY YABHG TUN MOHAMED DZAIDDIN HJ ABDULLAH

14 MAY 2009, MANDARIN ORIENTAL, KUALA LUMPUR

YBhg Dato’ Nordin Baharuddin, President of MICPA

Council Members of MICPA

Honoured guests, friends

Ladies and gentlemen,

Assalammuailaikum and Good Afternoon,

I wish to thank MICPA for inviting me to deliver the Institute’s Commemorative lecture today. I would like to congratulate MICPA on its 50th Anniversary and I am indeed honoured to share with you my views on a topic given to me by the organisers which is “What is Bursa Malaysia’s Voice to Embrace the Global Meltdown with Confidence?”

Let me begin by stating that it is an understatement to say that 2009 has been a challenging year. In fact, economic pundits term this the worst crisis since the Great Depression of 1930s. That is a very depressing thought by itself. However, I believe that in any situation, we can, without sounding trite, find the silver lining. The occurrences of the issues that brought about the downfall of the financial system in the western world gives us the opportunity to ponder on many issues:-

- Has liberalisation been given too free a hand?
- Where does one stand today on the issue of regulation versus deregulation?

- Do we emulate the West in rushing towards re-regulating the markets or is the Malaysian Capital Market already adequately regulated?

With so many uncertainties, we need to have the overall situation well in hand and carefully review the past experiences instead of predicting the future. The world is progressing, but the theme remains unchanged, stable financial security balanced with progression for development.

Most economic regions are now in recession. This includes the US, the Eurozone and closer to home Singapore. At such times, governments attempt to stimulate the economy with standard macroeconomic policies that includes to:-

- Increase borrowing;
- Reduce interest rates;
- Reduce taxes; and
- Spend on public works such as infrastructure.

Often, under free market ideals, government involvement in such activities is supposed to be minimal. Even other forms of “interference” is usually frowned upon. However, most governments realise that markets are not always able to function on their own especially under current circumstances. Pragmatic and sensible adoption of market systems means governments can guide development and progress as required.

In similar vein, the Malaysian Government has introduced stimulus packages to the tune of 67 billion Ringgit. The stimulus package as a whole is designed to enhance domestic growth and improve market confidence. Of course, in any policy decisions, there will be contrarian views that are against government-based stimulus packages, arguing instead that tax cuts alone should do the job on the premise that individuals make better choices on consumption than governments.

Dispelling that notion, I agree with Nobel prize winner for economics, Paul Krugman that we need to differentiate between private consumption and government stimulus.

Private spending is not what we are talking about when we talk about stimulus spending. We are talking about spending more on public goods; goods that the private market will not supply; things like roads, communication networks and so on. However, the severity of these economic problems dictates that there is no guarantee that these strategies will work, or it may take even longer to take effect. For example, as quarterly figures for various companies start to come out, more and more companies are announcing losses, closures, layoffs or other problems; people are becoming very nervous about the economy and spending less.

Ladies and Gentlemen,

During periods of boom, people do not want to hear of criticisms of the forms of economics they benefit from, especially when it brings immense wealth and power, regardless of whether it is good for everyone or not. However, with the current crisis of confidence, we are now faced with many fundamental questions on the credibility of the global financial system and changes that are taking place as we speak.

At home, change has taken the form of a huge shift in attitudes to investing and saving that has created at least one certainty. In export-centric Asian economies, do we now look towards domestic consumption when the culture in Asia has always been to save more and spend less? The evidence seems to suggest that the individual is not rising to the new challenges and there is a risk of deflation looming over the national economy.

The downturn in equity markets has generated a new aversion to risk – both by individuals and regulators. This has led to a shorter term approach to investment where the intuition is to look for trading opportunities and a greater preference for cash and government bonds with less short term volatility and lower returns.

The ramifications on the economy should not be ignored if our equities culture continues to be challenged. Malaysia Inc will become a less attractive place for companies to raise public capital resulting in fewer listings and less liquidity. The

debt market is an alternative but the yield required is much higher in view of the risk of default. Banks are careful. The cost of funding for Malaysia Inc is increasing. The government can only do so much as a lender of last resort and with the various guarantee schemes. Eventually the markets must start working again.

Ladies and Gentlemen, **(Challenges faced by Bursa)**

It is common knowledge that it is not “business as usual” at Bursa. During this period of crisis never before experienced, we have to rethink our strategies. Despite current environment where protectionism is being contemplated by many governments, in the exchanges sphere, competition is intensifying as we speak. The demutualisation of exchanges, the proliferation of competing trading platforms and execution venues and the growing competitiveness between exchanges to attract order flows are driving down trading costs to the benefit of investors. The net effect to Bursa should be to bring a wider range of products to a bigger group of customers.

Customers are no longer content to rely only on established players or confined to their boundaries:-

- for issuers, more choice about where they list or are admitted to trading;
- for investors, more choice about where they allocate funds; and
- for market users, more choice about where they direct order flow or execute trades.

As such, to continue being defensive and to play catch up with regional peers is a losing strategy. How can the Malaysian market remain relevant in the global scheme of things is the issue at hand.

We at Bursa certainly realise this. What is more important during this downturn is to prepare. Hence, Bursa’s overriding strategic objective has been to extend the scale and scope of our business and to serve more customers across a wider range of products and services. That means our focus, like the focus of many of our customers, is becoming increasingly international. Taking into account the assets

allocation methodologies employed by fund managers in current conditions, we must be able to provide the investment community the appropriate type of products.

On the other hand, as regulators, we are tasked with the oversight of ensuring a fair, transparent and efficient market. We straddle this role with the need to develop and progress in tandem with the rapidly evolving landscape. A truly competitive capital market, underscored by sound investor protection, will inspire investor confidence.

Ladies and Gentlemen,

I would like to take this opportunity to share with you the view from where I sit at the Exchange. We are certainly not shielded from what is happening in the world around us. Under the circumstances where there is flight to safety, we have embarked on several initiatives to enhance sustainable liquidity on Bursa Malaysia.

When the economic crisis exploded, developed markets around the world instituted bans on short selling. While short selling plays a role in building liquidity in the capital markets, I believe you will agree with me when I say that there remains a lot more to do to demystify the very opaque world of short selling. Despite the rush by others to re-regulate the markets especially short selling, Bursa Malaysia and the Securities Commission have always adopted a prudent approach in regulating the market. We have and will always adopt a cautious liberalisation of the capital market as envisaged in the Capital Market Masterplan.

However, there is still a long way to go and we still have many challenges and gaps to manage. We are cognisant of issues such as free float and liquidity in the market and we are taking measured steps towards improving the quality of our market holistically. This was one of the motivations behind the soon-to-be implemented enhancement to the benchmark index. The FTSE-Bursa Malaysia KLCI, with its liquidity and free float criteria, is aimed to improve the structure of the benchmark index. This is so that it becomes a higher quality platform which is compelling for international investors who gravitate towards tracking the performance of global-benchmarked indices. By all means, this does not mean that the new enhanced

index will solve the problem of liquidity. This merely means that we are putting in place quality parameters so that more and more of our listed companies will understand the value this will ultimately bring to our market and measure up to the criteria set.

We are also looking at widening investment options for investors by introducing a broader range of products that cater for a variety of market conditions. To spur greater liquidity, we are banking on structured products that have a multiplier effect on the underlying securities. In order to encourage more issuers to list structured warrants on Bursa Malaysia, the Exchange has introduced a fee incentive scheme for issuance of structured warrants to increase the number and type of structured products on Bursa Malaysia. We have also recently introduced market making framework for Exchange traded Funds (ETF) and Structured Warrants with the primary aim of boosting liquidity and increasing market competitiveness. This will in turn make the bourse more attractive for both investments and listings.

Moving forward, our mid-term strategic plans are to build on our existing niche in Islamic finance and in Commodities. The current crisis now presents an opportunity for Islamic finance. The Malaysian Capital market is now gaining momentum to grow into a vibrant marketplace in its own right in this space. As it stands, our country offers a comprehensive Islamic capital market in terms of infrastructure and regulatory framework. The rising demand for ethical investments has spurred Malaysia to offer Shariah-compliant products, making Malaysia one of the region's foremost providers in serving investors' discerning interests in this area. Bursa is well-positioned to become a strategic access for Islamic investments through its offering of products and services to international investors and we intend to capitalise on this niche.

On the commodities front, we already have a niche in the plantation sector and the Oil and Gas sector where the biggest plantation company in the world, Sime Darby Berhad is listed on Bursa and we have a range of Oil and Gas companies involved in both downstream and upstream activities listed on Bursa. Taking advantage of

Malaysia being as a resource based country, we intend to guard this niche and build on it further by enticing foreign companies in these sectors to raise capital on Bursa.

Ladies and Gentlemen,

We are, right now, at a significant juncture in the evolution of the Malaysian capital market. To further our aim of being a more competitive player in the capital market, we have embarked on restructuring the regulatory framework for efficient access to fund raising. This restructuring exercise necessitates the current board structures to be revised and streamlined. More importantly, this move is poised to make the bourse in line with international markets in positioning us as a conducive capital raising destination.

While the exchange already has internationally benchmarked rules and regulations in place, the listing rules for the new boards has been enhanced for greater access to meet the demand of prospective companies who see viable fund raising options in the Malaysian market. Just a week ago, we announced the structure of our two new markets. The new “Main Market” will be for established companies whilst the new “ACE Market” will be an alternative market for emerging companies from all economic sectors to raise capital.

In our pursuit for a dynamic and vibrant capital market, we are cognisant of the importance of investor protection in maintaining the quality of our market. The corporate governance aspect is very much dominant in the enhanced listing rules for the new boards. This is imperative in ensuring quality remains high to maintain investors’ confidence in the market.

Nevertheless, I am pleased to note that the sentiment has been improving for the past several weeks, demonstrating the return of optimism and confidence by the investors. While it’s true that our market is no less impacted by the global contagion, it has demonstrated its buoyancy and shown promise of growing further. This is

simply because of the sound fundamentals and high integrity that our market possesses.

Ladies and Gentlemen

In conclusion, during boom times, many Asian countries' central banks and governments had various responses including liberalising inflows to capital markets and intervening through market operations to avoid swings in their currency levels and liberalising resident's capital outflows to relieve the pressure of excessive inflows. These responses allowed freer capital flows rather than regulate them and Asia became more integrated into the world financial system.

Then came the Asian crisis, where the Wall Street dominance in an integrated financial system formed the basis for weakening the role of central banks, taking control over the reigns of monetary policy, stock markets and currency markets. Asia was thus more vulnerable when the bubble burst. The foreign inflow reversed, whilst it was difficult to get the outflows by residents in good times to return in bad times.

So with all the boom and the bust, there has been much talk recently about the future of equity markets. I believe that the future is bright. But that does not mean to say that the future will look exactly like the past especially after what we are experiencing now. The evolving global market place is changing the nature of equity markets and we all have to learn to remain relevant. We at Bursa Malaysia believe that there is no silver bullet in revitalising the market but what we are doing now is to get the house in order to reposition ourselves to take full advantage of the upturn.

Thank You