

THE OPENING OF THE MALAYSIA CAPITAL GROWTH OPPORTUNITIES CONVENTION AND EXPOSITION

THE PUTRA WORLD TRADE CENTRE (PWTC), 2 OKTOBER 1990

Encik Nik Mohamed Din,

Executive Chairman of the KLSE;

Distinguished guests;

Ladies and gentlemen.

I would like to thank the management of the KLSE and Business Times for inviting me to address this "Malaysia Capital Growth Opportunities Convention and Exposition". This Convention and Exposition is a major milestone in the efforts towards creating a better understanding and a more accurate perception of the Malaysian capital market and the immense opportunities that it offers. I am confident delegates to the Convention, and the participating companies and visitors to the Exposition will benefit from this Convention and Exposition.

Ladies and gentlemen,

2. A developing economy, if it is to progress, needs a fast expanding capital market. Such a market which offers longer-term financial assets including securities, corporate stocks and shares, plays an essential role in the financial and economic sophistication of a country, without which only limited growth is possible. Malaysia realises this and towards this end the local capital market has been developed progressively. The other segments of our financial system, especially the banking sector, have also developed tremendously. Hence Malaysia is set to be one of the fastest growing investment centres in the region, equipped with the required financial infrastructures.

3. The capital market in Malaysia serves two main objectives. It assists generally the process of economic development by mobilising long-term funds from the investing public to finance public development programme and private investments. Secondly, the capital market promotes private enterprise by providing a convenient means of raising capital for corporate investment and expansion. Over the years the Government has been moving towards the creation of an effective capital market which will supplement the financial system required to support our economic development and progress.

4. Historically, the capital market for longer-term funds had, in the early years of independence, been dominated by the issue of government securities. All the funds raised had been channelled to development projects. However the market for the issue and trading of corporate stocks and shares has been progressively expanding. The steady growth of the economy and the rapid expansion of the private sector have led to an increasing need for long-term investment funds. At the same time, the financing of corporate investments in Malaysia, which had traditionally been financed by entrepreneurs' own capital through family-owned companies, had experienced a shift towards public limited companies which

involve listing in the stock exchange. With this the general public, the institutions, both domestic and foreign, can participate in ownership and control and of course in active share trading. Altogether this trend is healthy and certainly it will enable more capital to be mobilised for ever bigger enterprises. In addition to this, foreign companies operating in Malaysia, once exclusively foreign-owned, are more and more seeking listing on the local stock exchange thus providing new and attractive counters for the investors.

5. The growth of the capital market, especially the corporate securities industry in Malaysia became even more vigorous in the 1980s. Larger numbers of bumiputeras, who in the past were mere bystanders where stocks and shares trading were concerned, became able to participate with the establishment of the Amanah Saham Nasional Berhad, the national unit trust company. The size of the funds available to the ASN make bumiputera participation quite meaningful.

6. The momentum of growth was set at a faster pace with the introduction of a new Securities Industry Act in 1983. This new Act prohibits the use of manipulative and deceptive devices in dealing with securities and sets out in detail the authority and functions of the Capital Issues Committee or the CIC.

7. Further development was targeted at stockbroking firms to prepare them to face new challenges in the capital market. They have been encouraged to be corporatised in an effort to increase their expertise and capitalisation. Another step to upgrade the financial and management capability of stockbroking firms was to issue new stockbroking licences to major local banks and this had improved the credibility of the industry. Then came a private concern which introduced the Malaysia Fund abroad thus providing the local market a wider exposure to foreign investment.

8. Foreign stockbroking companies have been offered larger participation in the local market by allowing them to increase their equity participation from 30% to 49% in local stockbroking companies. The government is confident that both the foreign firms and their local partners will benefit from this. Smaller companies too have been encouraged to be listed so as to broaden further the market. Hence the second board was introduced by the KLSE last year.

9. These various efforts at strengthening the capital market was further boosted by the decision taken to promote the KLSE as an independent exchange by requiring Malaysian registered companies to delist themselves from the Stock Exchange of Singapore. These developments have come fast and furious almost, but they have helped to make the market more mature and more capable of playing its role in the development of Malaysia's economy.

10. Still the capital market in Malaysia is relatively young compared to those in developed countries. Accordingly we will have to continue to develop it so as to become comparable to the more established markets. With the co-operation of all concerned, the government hopes the Malaysian capital market will be able to keep up with the latest development in capital market management and to ex-

pand the scope as much as is necessary at any given time.

Ladies and gentlemen,

11. The KLSE introduced a semi-automated trading system called SCORE last year which has done away with the traditional open outcry trading system. The KLSE will also introduce the Central Depository System, or "scripless" trading next year which will alleviate the many problems related to share certificates as well as do away with physical delivery of scrips.

12. Besides the Government and the KLSE, the stockbrokers too have a crucial role to play in the development of the capital market, especially in efforts to attract foreign investors to invest in our local market. In this respect, there is a need for the broking houses to upgrade their infrastructure capabilities, staff efficiency and capital base. Many broking firms continue to be burdened with the old problems linked with lack of capital and inefficiency as evidenced by the inability to cope with the surge in trading activity earlier this year. It is mainly to rectify these shortcomings that the Government has made it mandatory for a \$20 million ringgit minimum paid-up capital to be met by broking firms in the Klang Valley by the end of this year, and for firms in the rest of the country, by the end of next year. In today's world of ever increasing globalisation in securities trading, broking firms must be armed with the latest technology coupled with professionalism and international level research capability in order to face the challenges. Otherwise, they will be left behind.

13. In the years ahead, Malaysian broking firms must also contemplate competing in the international market. To do this, they must beef up their financial strength as well as enhance their research and marketing efforts. One way to tap the international market is, of course, to tie-up with some international broking houses. The government would encourage such development.

Ladies and gentlemen,

14. Although we have made tremendous progress, the Malaysian securities market is still burdened with a few peculiarities which should be overcome or minimised in order to ensure a firmer economic growth in future. With the present trend towards increased globalisation of the securities markets, any incident which affects sentiment worldwide will also affect the local stock market. For instance, the Gulf crisis has, to some extent, put a brake on the Malaysian stock market although it was on an uptrend backed by strong economic fundamentals and a stable political climate.

15. Altogether it would seem that our market is unduly influenced by rumours. This exposes the market to manipulations by the unscrupulous rumour-mongers out for some quick profits. While market rumours exist in all stock exchanges, the situation in the Malaysian market appears to be excessive. This is very unfortunate because the victims are usually the small player or the serious investor. Share prices should at least be related to company performance, if not to actual dividends or profitability. Otherwise there will be too much rumour-

mongering and unhealthy speculation.

16. Speculation in shares is quite normal and, in fact, there must be some element of speculation in any stock market for it to attract the interest of investors. However, excessive speculation is unhealthy and the government hopes with the increasing maturity of the stock market, this trend will be progressively reduced. Investors instead should base their decisions largely on fundamentals and to a reasonable degree insulate the Malaysian market from the performance of major world markets, markets which are much more influenced by certain happenings.

17. There is a need for a more concerted effort in educating the investing public on the fundamentals of the stock market. Well-informed and knowledgeable investors will certainly go a long way towards developing a healthy and progressive stock market. In this respect, I hope this Convention and Exposition will create greater awareness of the opportunities that abound in the Malaysian capital market. Malaysians should therefore take this opportunity to learn more about the Malaysian capital market and the investment opportunities that it offers.

Ladies and gentlemen,

18. The companies listed on the KLSE have the responsibility to disclose promptly information about the activities that have bearing on company performance. Prompt disclosure of significant information by the companies can help reduce the possibilities of insider trading as well as help create a mature and credible market that has the confidence of local and international investors.

19. One obvious way to minimise insider trading is for companies, their officers and the relevant people involved in any significant corporate deals to act in a more responsible manner. The authorities, on their part, will not hesitate to take stern action against any one found to be implicated in unfair trading practice. At the same time, the directors and management of listed companies have to be more responsible towards the investing public and the minority shareholders in the discharge of their duties. When we read about big names in business being jailed in other countries, it is well to remember that the price to be paid for being greedy is very painful. Always say Ivan Boesky or Milken whenever you are tempted.

Ladies and Gentlemen,

20. I regret that many private and family-owned businesses are still not coming forward to seek listing on the KLSE. Although the KLSE's second board was launched last year to enable viable smaller companies with strong potential to be listed, to date there are only ten companies listed on this board. There are many companies which are doing well enough to qualify for listing, but are not keen because the owners of many of these family-owned businesses are afraid to lose control. If companies and enterprises are to survive the founders, they must be turned into public limited companies and have professional management. This

must be done before the demise of the founder. A public company culture will ensure not only survival but also growth. The growth of individually founded companies into huge corporations in Europe, America and Japan is because private family companies converted to public limited companies. So far only British founded companies in Malaysia have survived the test of time. Chinese family companies which prospered during the life time of the founders have all disappeared. The same will happen to the present family companies unless they convert to public limited companies.

Ladies and gentlemen,

21. It is quite clear that the development of the Malaysian capital market involves the concerted efforts of everyone concerned -- the Government, the KLSE, the stockbrokers, the companies and the investors themselves. Everyone in the industry should strive towards developing a healthy stock market that should be able to attract investments both locally and from abroad. With positive factors such as a robust economy, a sound infrastructure, and a stable political climate, investment opportunities in the Malaysian economy in general and the capital market in particular are immense.

22. Once again, I wish to thank the organisers of this Convention and Exposition for inviting me to officiate the opening ceremony. I wish this gathering every success in its deliberations.

23. On this note, I have much pleasure in declaring open this Malaysia Capital Growth Opportunities Convention and Exposition.