

SPEECH BY: DATO' SERI DR. MAHATHIR BIN MOHAMAD
(PRIME MINISTER)

EVENT: PERASMIAN PEJABAT BURSA SAHAM KUALA LUMPUR (BSKL)

VENUE: BUKIT DAMANSARA, KUALA LUMPUR

DATE: 14 AUG 1987

TIME:

Yang Berhormat Menteri Kewangan,
Encik Daim Zainuddin;
Dif-Dif Kehormat;
Tuan-tuan dan Puan-puan sekalian.

Hari ini ialah hari yang bersejarah bagi Bursa Saham Kuala Lumpur kerana ia telah melangkah setapak lagi ke arah kemajuan dengan pelancaran perkhidmatan MASA (real time price information system) dan perasmian pejabat baru. Dengan adanya ruang yang lebih luas ini saya berharap Bursa Saham Kuala Lumpur akan dapat menampung perubahan-perubahan yang diperlukan untuk melengkapkan dirinya supaya dapat memberi perkhidmatan yang lebih efisien dan profesional.

Ladies and Gentlemen,

2. We are fortunate today that as we open this new office, there is clear evidence that the economy is improving. Commodity prices have reached better levels, the Balance of Payments position is brighter and our external reserves are comfortable. All these favourable economic factors are making the stock market quite bullish. With the banks now flushed with funds and the lending rate being progressively reduced, I am sure this will generate more opportunities for growth of the stock market.
3. This change of fortune has not been entirely fortuitous. It is due to the long and patient steps the Government have taken to diversify the economy, to strengthen the nation's finances and to improve the incentives for the private sector. We will continue with the efforts to stimulate economic growth, promote private investment and increase our competitive position so that the structural foundations of our economy will be further strengthened.
4. The stock exchange too as one of the institutions that is vital to a modern economy, should strive to make improvements that will enhance its contribution to national development.

Ladies and Gentlemen,

5. The significance of the stock market as a vital component of the Malaysian capital market cannot be over-emphasised. The securities market has been carefully developed over the years to ensure that it fulfills its primary role as a channel for the mobilisation of funds and a market for the investing public. Given this role, the Kuala Lumpur Stock Exchange or the KLSE, which is the nerve centre of the stock market, has the responsibility of upholding its image as a fair and clean trading place, which should not have any tinge of suspicion and be able to conduct its affairs with a high degree of professionalism.

6. The shock of the Pan-Electric affair and its effect of eroding investors' confidence in the stock market have made us more aware of the weaknesses in the trading system and the fragile nature of the local market. I am glad to see that the KLSE and relevant Government authorities have responded by introducing measures that will help to strengthen the stockbroking industry and to protect the interests of the investing public. Thus, I welcome, for instance the stand-by credit facility which has been established to provide funding for the stockbroking companies should the need arise. The Government on its part has amended the Securities Industry Act of 1983 to prohibit the use of manipulative and deceptive devices in dealing in securities and to define more clearly the inspectorate powers of the Registrar of Companies.

7. The KLSE, itself undertook a number of measures which included a thorough revamp of its Listing Manual. The objective of the much more stringent requirements set out in the revised Manual is to instill greater responsibility and accountability among promoters, directors and corporate managers of companies listed on the Exchange. These measures are welcome and I urge the KLSE to continue with such efforts and indeed increase their vigilance to improve the integrity of the market.

8. The Capital Issues Committee which is the regulatory authority of the securities industry, has also published its Guidelines to enable corporate planners as well as the investing public to have a better appreciation of its policies.

9. All these measures which have been taken to clarify and tighten the rules and regulations are no doubt important. In addition, however, there should also be measures aimed at making the stock market more stable and resilient so that it will not be so easily influenced by factors which have little or no relevance to the economic fundamentals. As the stock market is often taken as a barometer of the state of the economy, it is highly desirable that the market performance reflects the real economic situation. Unfortunately, we usually find that the market is very vulnerable to irrelevant matters, which often turn out to be

mere speculation or rumours. This is surely an unhealthy state of affairs for all parties concerned, especially the investing public. I would like to see the relevant authorities find ways and means to reduce the extreme fluctuation in our stock market.

10. As you are all aware, the Government is anxious to improve the structure of the industry both financially and professionally. To achieve this objective, the Government is encouraging the corporatisation of the stockbroking firms. This will increase the expertise and capitalisation of the stockbroking firms. Such a stronger foundation will increase their capacity to handle larger volumes of business and promote the competitiveness of the industry.

11. Through corporatisation, I hope we can also build the international image of our firms and enable them to increase their dealings with foreign brokers. Some foreign brokers tend to bypass our market because they do not know much about it and about the firms. The local firms must be more aggressive to project their image abroad so that they can capture a larger share of the foreign business and earn more income for the country.

Ladies and Gentlemen,

12. In view of the Government's aspirations to strengthen the Malaysian stock broking industry, we have now taken a decision to issue new stockbroking licences to the three largest local banks. Each of these licences will carry a seat money of \$5 million Ringgit which will be used as development funds for modernising the KLSE with better facilities and equipment for the betterment of everybody in the industry. Of course there will be conditions attached and these will be spelt out later.

13. I am told that the market is being strengthened by the inflow of foreign funds into the market. The launching of the Malaysia Fund recently has given our local market wider exposure to foreign investors. This is a welcome development which hopefully will lead to more foreign funds flowing into the Malaysian stock exchange.

14. We have spared no efforts to restore confidence and to create a suitable environment for a healthy and orderly growth of the stock market. It is now up to the brokers and other intermediaries to maintain this confidence by injecting the much needed professionalism through innovative measures and healthy trading practices. Corporate advisers, funds managers and stockbrokers should be more professional and are expected at all times to exercise a standard of behaviour and integrity which should be beyond and above reproach. The other group of participants who have an even greater responsibility are the managers and directors of corporations listed on the Stock Exchange. They have the very fundamental and crucial responsibility, of being

accountable to their shareholders.

15. The integrity of all individuals is absolutely essential in order to preserve confidence in the stock market. In this connection, I would like to touch on the question of insider trading, which is now a topic of some concern in the international stock broking community. Although insider trading is not a major problem in Malaysia, we must never allow it to happen here. I would like the Exchange to ensure that everybody connected with the Exchange exercises a high degree of responsibility, so that the integrity of the market as a trading place will not be questioned and open to suspicion or affected by endless rumours. An effective means of reducing the scope for insider trading is to ensure that pertinent corporate decisions such as mergers and takeovers are fully and speedily disclosed to all concerned. By making such information quickly available to the investing public, this will reduce the chances of them being manipulated by a few individuals who have access to privileged information. Anybody who is found to be involved in insider trading must be severely punished.

16. I also wish to emphasise that while rules have been promulgated to regulate the system for the desired objective, it is the Government's intention to allow the KLSE to be self-regulatory as far as possible. However, while the Government recognises the need to allow the KLSE to conduct its own affairs and chart its own course of development, the Government will continue to oversee the market in the interests of the investing public and would not hesitate to continue the 'weeding-out process' whenever it deems it necessary to ensure the integrity of the market for the protection of the investing public.

Ladies and Gentlemen,

17. Finally, I wish to congratulate the KLSE Committee for the smooth transfer of the Stock Exchange to this new office. I am told there are plans to develop further its facilities for the benefit of the industry and the public. On the part of the Government, we wish the Committee all the best in their efforts to modernise the KLSE and enhance its image among local as well as foreign investors.