

Malaysia's Capital Market Masterplan, 2001-2010: A Case Study

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This paper, prepared for the Capital Market Authority of Rwanda, examines the process Malaysia's government undertook to reform and develop its capital markets in the wake of the Asian financial crisis during the period 2001-2010. The paper is largely based on historical context and is intended to glean lessons from the process itself. The paper gives special attention to how the Malaysian government perceived the challenges it faced at that time, and the policies formulated to address them, but does not attempt to assess the efficacy of those policies. Further, the paper does not attempt to analyze recent political and financial developments in Malaysia.

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Executive Summary

In the aftermath of the Asian financial crisis, the Malaysian government set out to strengthen and broaden the country's financial sector, including underdeveloped capital markets which were then relatively narrow and were dominated by government debt and equities. After a decade-long effort guided by the Capital Market Masterplan (CMP), Malaysia's capital markets spanned a much broader range of products and services to include private equity, a robust investment management industry, and a larger role for corporate bonds, especially Islamic securities.

The CMP began as part of a two-pronged approach designed to meet Malaysia's need for more diversified sources of long-term finance. The Financial Sector Masterplan (FSMP) focused primarily on strengthening banking and Islamic finance, along with insurance and the venture capital industry. The separate CMP set out to enhance the regulatory framework and expand capital-market development into new financial institutions and services such as unit trusts, private-debt securities, private pension funds, and Islamic securities.

This paper will focus on the process the government followed as it created and implemented CMP, with special attention given to how the government perceived the challenges it faced and what steps it took to address them. Several highlights from Malaysia's experience include:

1. **SEQUENCING AND TAKING A COMPREHENSIVE APPROACH.** The Malaysian government believed that a strong banking sector was a prerequisite to capital-market development and liberalization. Following stabilization of the banking sector and the wider economy from the effects of the Asian financial crisis, Bank Negara Malaysia (BNM, the central bank) and the Malaysian Securities Commission (SC) developed and implemented ten-year master plans to further develop the financial sector and the capital markets, respectively.
2. **DESIGN.** The SC prepared its Capital Market Masterplan through a consultation process that lasted over a year and involved hundreds of meetings with relevant stakeholders in the public and private sectors, as well as international experts.
3. **IMPLEMENTATION.** The SC developed a sequenced implementation process with specific assignments, performance benchmarks, and avenues for feedback and mid-course adjustments.
4. **BROADENING THE ISSUER BASE.** To encourage issuers to utilize the corporate bond market, the SC streamlined the issuance process and allowed some issuers to sign up for shelf registration.
5. **BROADENING THE INVESTOR BASE.** To encourage investors to participate in the domestic capital markets, the government emphasized improving corporate governance, with a view toward bolstering investors' confidence in corporate stewardship of their funds. The SC also focused on expanding the menu of products and services available to investors.
6. **IMPROVING INTERMEDIATION.** To improve market liquidity, the SC promoted the consolidation and liberalization of market institutions (principally, the equity and derivatives exchanges) and market intermediaries (principally, the stock brokerage industry) with the aim of achieving better economies of scale and scope.

- 7. CULTIVATING A COMPETITIVE NICHE.** The government treated capital markets as a facilitator of economic growth, not a key driver of it. The exception to this was the Islamic capital market, where the government determined that it had an opportunity to build an internationally competitive export service sector.
- 8. DEVELOPING HUMAN CAPITAL.** The government devoted resources to training and education, both domestically and in partnership with institutions abroad.

Introduction

Pre-Crisis Capital-Market Development and the Asian Financial Crisis

Over the past forty years, Malaysia has transformed from a predominantly rural, commodities-based economy to a manufacturing center and trade hub. Beginning in the 1970s, the government adopted an export-led growth strategy, similar to those pursued by Japan, South Korea, Taiwan, and others. Economic development increasingly focused on creating a strong, private-sector-driven economy.

The development of capital markets reflected this orientation. Initial capital-market development focused on formalizing the equity market, which dated to the colonial era, as a source of non-bank funding for private companies. The growth of the bond market was first driven by the issuance of Malaysian government bonds as the prerequisite for establishing the sovereign yield curve and investor base necessary for development of the corporate bond market. Subsequently, an active corporate bond market began to facilitate issues by the private sector to finance longer-term infrastructure and other public-private partnership projects.

During the 1980s, the government sought to shift more economic decision-making power to the private sector. Malaysia's equity market grew substantially in the early 1990s as state-owned enterprises were privatized. However, the corporate bond market remained underdeveloped, and most debt financing continued to be intermediated by banks.

The dependence of Malaysia's economy on bank finance left it vulnerable to the 1997 Asian financial crisis. The crisis originated in Thailand but quickly spread to Malaysia and other countries in Southeast Asia. Malaysia's currency, the ringgit, was subject to waves of speculative attacks in 1997, which led to portfolio investment outflows and exchange rate depreciation.¹ Stock and real estate prices fell precipitously, corporate profits shrank, and banks' balance sheets weakened as nonperforming loans (NPLs) rose, precipitating a banking crisis.² The Malaysian government briefly tightened fiscal and monetary policy in an effort to win back market confidence, but then reversed course in early 1998, opting to prioritize economic stimulus.³ In the fall of 1998, the Malaysian government pegged the ringgit to the U.S. dollar and implemented capital account controls in an attempt to insulate the country from

¹ BNM intervened to defend the ringgit but soon abandoned this approach in favor of preserving Malaysia's international reserves. See Bank Negara Malaysia, 1999, pp. 570-572.

² Bank Negara Malaysia, 1999, pp. 583-586; see also, IMF, 2001, p. 1.

³ Bank Negara Malaysia, 1999, pp. 590-593.

the regional chaos. Fortunately, Malaysia's level of external debt was small at the time and, as a consequence, the country did not experience an external debt crisis.

In the aftermath of the crisis, the government focused first on shoring up the weakened banking sector. (See Box 1.) Once the banking sector had been stabilized, the government then turned its attention to the longer-term development of the financial sector and the capital markets.

Impetus for Capital-Market Master Plan

Once the crisis had passed, a consensus emerged that Malaysia would have to strengthen its existing financial institutions, many of which had been weakened by the crisis, as well as diversify and enhance the competitiveness of its financial sector.

Two factors in particular—one domestic and one foreign—motivated the decision to draft the CMP. The domestic impetus was to reduce the maturity mismatch in the domestic banking sector and, concurrently, to reduce the economy's reliance on bank intermediation for long-term financing by shifting responsibility for such financing away from depositors and toward direct investors.

The foreign impetus was to improve the capacity, competitiveness and resilience of the domestic financial sector in anticipation of further international liberalization. As a signatory to the GATS Financial Services Annex, Malaysia was obligated to further open its financial sector. Malaysian officials were looking ahead to a future marked by higher volumes of cross-border financial flows and heightened competition from regional exchanges and foreign market participants. They feared that foreign financial market participants could exit the country in a crisis. They therefore sought to prepare Malaysian financial institutions and markets for this era of increasing globalization.

As it became clear that the government was committed to some kind of reform, market participants pushed for clarity on its priorities and time horizon, calling for “an overall long-term strategic plan that would identify key areas and time frames for market enhancement and development.”⁴ The government decided that an explicit framework was needed to guide the “orderly and effective deregulation and liberalization of the capital market” and to identify and pursue areas of strategic competitive advantage that could be exploited internationally.

Planning and Implementation of Capital-Market Development

Overview

Malaysia's Capital Market Masterplan was drafted to guide the development of Malaysia's capital markets during the decade 2001-2010. The CMP laid out a structured and comprehensive reform plan that sought to establish new markets, asset classes, and intermediaries and to strengthen existing ones. The CMP was developed with a view toward establishing domestic capital markets that would be internationally competitive and meet the needs of domestic issuers and investors and facilitate long-term economic growth in line with Malaysia's national development plans.

⁴ Securities Commission of Malaysia, 2001, p. 5.

This design and implementation process depended on a number of factors, including consensus among relevant public- and private-sector stakeholders on the need for a comprehensive reform plan; an extensive consultation and drafting process; clearly articulated objectives and concrete recommendations; well-defined responsibilities and measures of progress; and, finally, an implementation process that was sequenced and allowed for regular feedback and adjustment.

Decision to Proceed and the CMP Mandate

The mandate for the development of the CMP was presented to and approved by the minister of finance in the summer of 1999.⁵ In August, the Finance Ministry and the Securities Commission jointly announced the mandate to the public, and shortly thereafter the CMP's terms of reference (ToR) were released. The ToR identified the CMP's key tasks, including:

- Formulation of a comprehensive vision and program for the development of Malaysia's capital markets
- Formulation of a framework for the orderly and effective sequencing of deregulation and liberalization
- Identification and mapping out of the strategic positioning of Malaysia's capital markets, both domestically and internationally⁶

The Capital Market Strategic Committee (CMSC) was established to oversee and guide the CMP's development in September 1999.⁷ It was headed by the chairman of the SC and included private-sector representatives from local and international capital markets.

Integration with Other Plans and Overarching Vision

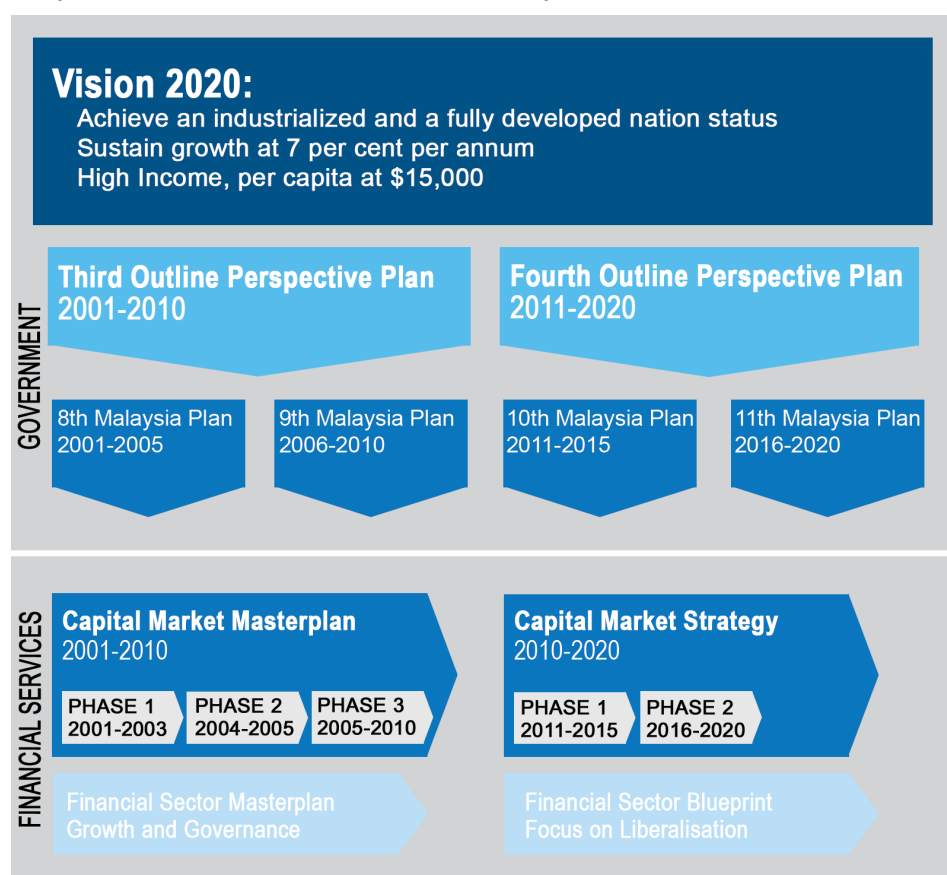
While undertaken independently, the CMP was developed at the same time as the Financial Sector Masterplan. The development of the FSMP followed the rebuilding of the banking sector in the aftermath of the crisis (see Box 1) and was initiated and undertaken by BNM. The FSMP covered banking, insurance, domestic development financial institutions, and venture capital financing. In both the FSMP and the CMP, the ultimate objective was to establish a competitive, stable environment for domestic financial institutions to compete with foreign-owned institutions in a more open market, through a sequenced series of reforms.

Both the CMP and the FSMP were developed with reference to Malaysia's economic development goals, as outlined in the country's Vision 2020 plan and in its five-year Outline Perspective Plans. (See Figure 1.) Among Malaysian policymakers, there was a general consensus that the purpose of the financial sector was to be an enabler of growth. That is, capital-market development would be pursued with a view toward supporting the growth of the real sector and Malaysia's transition to a fully industrialized and high-income economy.

⁵ See Appendix 2 for the full CMP development timeline.

⁶ Securities Commission of Malaysia, 2001, p. 6.

⁷ See Appendix 3 for the full list of CMSC members.

FIGURE 1. Malaysia's CMP, FSMP, and Economic Development Plans

Source: Securities Commission of Malaysia

The vision for Malaysia's capital markets was that they should be:

- **INTERNATIONALLY COMPETITIVE** in all core areas necessary to support Malaysia's basic capital and investment needs, as well as its longer-term economic objectives
- **A HIGHLY EFFICIENT** conduit for the mobilization and allocation of funds
- **SUPPORTED BY A STRONG AND FACILITATIVE REGULATORY FRAMEWORK** that enables the capital market to perform its functions effectively and provide a high degree of confidence in its users⁸

Consultation Process and Interagency Coordination

Throughout the drafting of the CMP, the SC sought to maintain a wide and broadly representative consultation process, one that engaged the general public, relevant government agencies, elected officials, and industry participants.⁹

In October 1999, the CMP launched a website to keep the public abreast of developments and as a means of collecting feedback. Prior to the finalization of many specific reform measures, the SC disseminated consultation papers for public comment and industry feedback.

⁸ Securities Commission of Malaysia, 2004, p. 141.

⁹ Securities Commission of Malaysia, 2001, p. 7

The SC also conducted more targeted outreach to domestic financial institutions, relevant industry and professional bodies, market participants, and international academics and other experts. In addition, the SC hired private consultants to provide research and independent analysis.

Such consultations were critical, not only for obtaining the support of key stakeholders, but also for ensuring that the final plan accurately reflected and addressed real market conditions. Meetings with legislators were especially important, given that many reforms would require new laws to be passed.

BOX 1: Recapitalizing and Reforming the Banking Sector in the Wake of the Crisis

Bailing Out the Banking System and Other Reforms

In the initial aftermath of the crisis, the Malaysian government focused on rebuilding the banking sector through the establishment of institutions to resolve the high level of NPLs, to recapitalize the banks, and to restructure corporate debt.

To deal with nonperforming loans (NPLs), the government set up an asset-management institution, the Asset Management Corporation (known as Danaharta). Danaharta's mandate was to take over NPLs and then to manage and maximize their recovery value. Removing NPLs from banks' balance sheets enabled the banks to focus on rebuilding their capital and restructuring, as well as to undertake new lending to support the revival of economic growth. During the crisis, the NPL rate rose from 3.8 percent of total loans in 1996 to 13.6 percent in 1998. Danaharta was modeled after the Korea Asset Management Company (KAMCO) and the Indonesian Bank Restructuring Agency (IBRA) (Randhawa, p. 397). Danaharta's mandate was to first buy NPLs from banks (with a target of buying at least 70 percent of all NPLs held by Malaysian banks), thereby freeing up the banks' balance sheets, and then attempt to maximize their recovery value (Sivalingam, p. 396). Danaharta achieved a final loan recovery rate of 58 percent and was closed in 2005 (Sivalingam, p. 396), and the NPL rate was reduced to 9.5 percent (Sivalingam, p. 396).

To recapitalize the banking system, the government established the Danamodal Nasional Berhad (Danamodal). Banks' risk-weighted capital (RWC) had been seriously eroded by the crisis, down to 10.1 percent in 1998. The Danamodal injected RM7.1 billion into the banking system, and by the time it was closed in 2003, the RWC ratio for Malaysia's banking sector was back up to 13.2 percent.

To restructure corporate debt, the government created the Corporate Debt Restructuring Committee (CDRC). Out of recognition that Malaysia's bankruptcy code was out of date and not up to the task at hand, the CDRC's mandate was to serve as a mediator between creditors and debtors. By the time the CDRC was closed in 2002, it had facilitated RM52.5 billion of debt restructuring (Sivalingam, p. 397).

The direct costs of the bailout were estimated at 5 percent of GDP (Randhawa, p. 397). In addition to these measures, the government also undertook other reforms of the banking sector, including consolidation (Malaysia's highly fragmented banking system was reduced from 71 institutions to 30, organized in 10 banking groups), the adoption of the principles-based regulatory system promulgated by the International Accounting Standards Board (IASB), and the introduction of deposit insurance (previously, bank deposits had enjoyed only an implicit government guarantee) (Sivalingam, p. 398).

The CMP and the FSMP were drafted separately, with limited consultation between the SC and BNM. In general, it is important for financial regulatory authorities to coordinate in the development of related plans, to ensure that there are no overlaps or gaps in coverage. In this case, however, the legal authorities of the SC and BNM provided a clear demarcation of responsibilities and jurisdictions.¹⁰

¹⁰ The only exception to this was venture capital, which was initially handled by BNM, but is now regulated by the SC.

During this stage, interagency competition could be channeled effectively toward motivating each planning team to do its best. Coordination between the SC and BNM became more important during the implementation phase, particularly for reforms that involved international transactions.

Formulation and Approval

The CMP set out six objectives, from which flowed 24 strategic initiatives and 152 specific recommendations. (See Table 1.) Five of the six objectives focused on key aspects of the capital markets, including issuers, investors, market institutions, market intermediaries, and the regulatory framework. The sixth objective focused on developing a particular market segment—Islamic finance—where Malaysia believed it could establish an international competitive advantage.

Source: Cheong, Slide 16

With the exception of the sixth objective, the focus of the CMP was on developing the capital markets to complement Malaysia's economic growth, not to be a driver of growth itself. Only in the case of Islamic finance did Malaysia seek to establish an internationally competitive service sector.

The CMP was presented to and approved by Finance Minister Y.B. Tun Daim Zainuddin in October 2000 and released to the public in 2001.

BOX 2: Summary of Key Elements of CMP Drafting Process

The key elements of the CMP drafting process can be summarized as follows:

- Relevant research
- Country comparator studies
- Consultation with the industry
- Consultation with subject-matter experts
- Considerations of tax incentives to support certain markets and transactions
- Where relevant, pilot testing of measures
- At appropriate times, submission of output and recommendations to steering committee
- Dissemination of consultation papers before implementation of specific measures
- Securing buy-in of stakeholders prior to full implementation
- Presentation to the Ministry of Finance and later tabling in Parliament in the case of laws and regulations

TABLE 1: Capital Market Masterplan: Objectives and Strategic Initiatives

Objectives	Strategic Initiatives
1. Issuers: To be the preferred fund-raising center for Malaysian companies	1.1. Enhance the efficiency of the fund-raising process 1.2. Implement a comprehensive program to develop the corporate bond market as a competitive source of financing 1.3. Facilitate the development of the venture capital industry to finance emerging high-growth companies 1.4. Foster a liquid and efficient market for the secondary trading of securities
2. Investors: To promote an effective investment management industry and a more conducive environment for investors	2.1. Develop a strong framework for corporate governance and shareholder value recognition 2.2. Heighten efforts to establish a vibrant and competitive investment management industry 2.3. Enhance the role of institutional investors in the provision and management of funds 2.4. Facilitate effective risk management by actively developing the derivatives industry 2.5. Facilitate the introduction of a broad range of capital market products catering to various risk-return profiles
3. Institutions: To enhance the competitive position and efficiency of market institutions	3.1. Restructure Malaysian exchanges and clearing institutions to strengthen their efficiency and competitiveness 3.2. Ensure Malaysian exchanges are well positioned to respond to changing market dynamics through the adoption of flexible business structures and commercially-oriented strategies 3.3. Enhance the efficiency of the trading, clearing, and settlement structure
4. Intermediaries: To develop a strong and competitive environment for intermediation services	4.1. Foster constructive competition through the deregulation of services, products, and fixed fee structures 4.2. Develop strong full-service brokers to provide a competitive market for integrated financial services 4.3. Ensure Malaysian intermediation services are anchored on appropriate prudential standards, with high levels of business conduct and professional skills 4.4. Adopt a pragmatic program for liberalization, supported by appropriate safeguards
5. Regulation: To ensure a stronger and more facilitative regulatory regime	5.1. Move toward a market-based system of regulation for capital market activities 5.2. Ensure regulatory parity and consistency between all institutions and participants conducting similar capital market activities 5.3. Ensure strong enforcement of regulations governing the capital market 5.4. Enhance capacity for maintaining systemic and financial stability
6. Competitive Advantage: To establish Malaysia as an international Islamic capital-market center	6.1. Facilitate the development of a wide range of competitive products and services related to the Islamic capital market 6.2. Create a viable market for the effective mobilization of Islamic funds 6.3. Ensure there is an appropriate and comprehensive accounting, tax, and regulatory framework for the Islamic capital market 6.4. Enhance the value recognition of the Malaysian Islamic capital market internationally

Source: Securities Commission of Malaysia

Sequencing

The SC chose to sequence the reforms (as opposed to taking a “big bang” approach), with the CMP broken down into three phases over 2001-2010. (See Table 2.) In the first phase, reforms focused on enhancing domestic capacity. In the second phase, they worked to intensify competition among domestic players. In the third phase, the markets were further opened to foreign competition.

TABLE 2: Sequencing Framework

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Strengthen domestic capacity and develop strategic and nascent sectors									
			Further strengthen key sectors and gradually liberalize market access						
					Further expand and strengthen market processes and infrastructure with the goal of becoming a fully developed capital market and enhancing international positioning in areas of comparative and competitive advantage				
Phase 1			Phase 2		Phase 3				

Source: Securities Commission of Malaysia, Capital Market Masterplan, p. 272

The sequencing framework was intended to take into account the current status of market participants and institutions and to ensure that they were ready for liberalization and deregulation, to account for market stability, to ensure that deregulation did not compromise the integrity of the markets, and to respect the availability of resources.¹¹ Some reforms that were deemed especially urgent (such as the consolidation of the stockbroking industry) were initiated before the CMP was finalized.

Specific reform measures were assigned targets and timelines, with an understanding that some targets were sequential while others were interrelated and needed to be developed concurrently.

Implementation, Progress Monitoring, Reporting, and Feedback

The CMP specified clear lines of authority and responsibility for implementation and monitoring of the plan. (See Figure 2.) The SC, which bore ultimate responsibility for the CMP’s implementation, incorporated the CMP’s objectives and strategic initiatives into its own business plan. The reform process was monitored by an Implementation Task Force within the SC, which served as the secretariat for the entire reform process. Its purpose was to oversee and facilitate coordination among the working committees and other stakeholders, resolve issues of disagreement, monitor the progress and effectiveness of new measures, and manage the communications program.

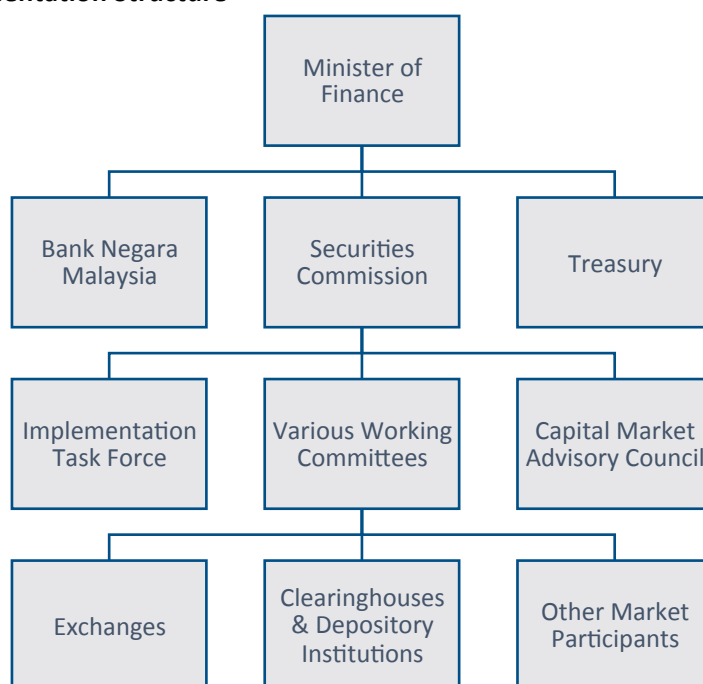
Working committees bore responsibility for implementation at the operational level. These committees comprised market participants and representatives of industry associations as well as staff from the SC.

¹¹ Securities Commission of Malaysia, 2004, p. 146.

In the case of corporate bond market development, the already existing National Bond Market Committee was tapped.

A Capital Market Advisory Council (CMAC), which included 15 prominent market participants and businesses, was appointed to provide the SC with independent progress assessments and recommendations for where the CMP needed to be adjusted based on market developments.¹²

FIGURE 2: Implementation Structure

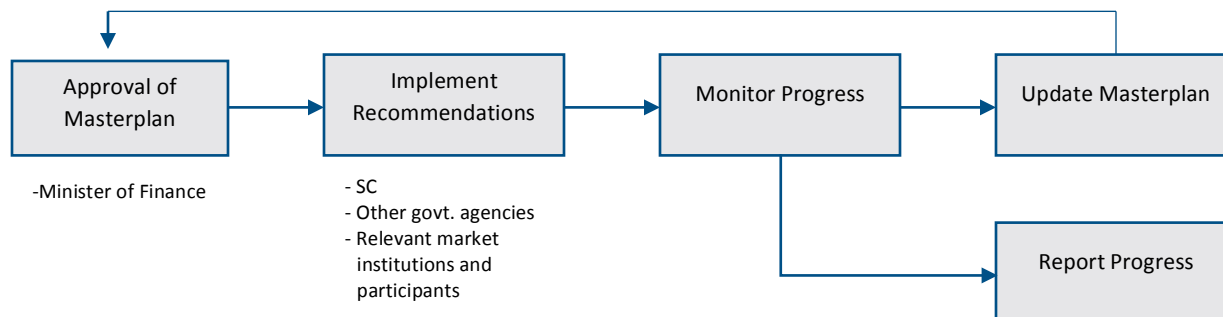


Source: Securities Commission of Malaysia, Capital Market Masterplan, p. 266

Finally, the CMP outlined a means for tracking progress and adjusting plans based on feedback and on new market developments, both domestically and abroad. (See Figure 3.) Before transitioning from one phase to another, it was seen as important that the prerequisite targets be met—or else the transition would be delayed, lest the plan be implemented out of sequence. This was done to ensure that the liberalization process did not compromise market integrity or invite financial instability.

Further, it was anticipated that the capital markets would continue to evolve over the course of the ten-year implementation schedule, so policymakers were encouraged to periodically check that the reforms they were implementing were still relevant and useful.

¹² See Appendix 3 for the full list of CMAC members.

FIGURE 3: CMP Implementation Process

Source: Securities Commission, Malaysia, Capital Market Masterplan, p. 265

BOX 3: Summary of CMP Implementation Success Factors

- As a first priority, meet pre-conditions before starting to implement the CMP. Markets must continue to function reasonably well while plan is being implemented
- Introduce structured implementation mechanism, with a full-time task force in the SC and begin consultation processes
- Master Plan implemented in stages, with checkpoints. Success at each stage is a prerequisite before moving on to the next stage
- Provision in law does not require immediate implementation; implement when market readiness is established
- Control the implementation process. Do not lose sight of overall economic development and work within country's specific socio-economic context
- Throughout implementation, understand the financial landscape, identify what is best for the country in the changing environment:
 - Seek views of stakeholders through discussions and workshops
 - Highlight areas of weakness that require further development
 - Identify improvements in capital market infrastructure for needs of the transforming economy
 - Build consensus and buy-in of industry
 - External consultant brought in to assist in information gathering and developing a coherent thinking methodology
- Study experiences of other countries on the different issues

Source: Cheong, Slide 17

Issuers: Improving Access to Capital Markets, With a Focus on Domestic Corporate Bond Market Development

Overview

In order to make Malaysia's economy less dependent on bank financing, a key focus was to enhance the attractiveness of the capital markets to potential issuers by streamlining the issuance process, and enabling the introduction of new product categories and types of issuers. The CMP was especially focused on developing the domestic corporate bond market, which had grown only slowly in the 1990s.

The Challenge

Through the 1980s, Malaysia's capital markets were driven primarily by government debt issues to fund public development expenditure that could not be met from government revenues.¹³ At this time, government debt accounted for three-quarters of the funds raised in Malaysia's capital markets.¹⁴ The privatization program of the late 1980s and early 1990s helped to deepen the equity markets. However, Malaysia's corporate bond market was slow to develop. When the Asian financial crisis hit, Malaysia's private sector was still almost wholly reliant on the banking system for debt financing.

Deepening the Issuer Base by Improving Access: Centralizing Regulatory Authority

To streamline the issuance process and reduce the time to issue, the government centralized responsibility for regulating the corporate bond market with the SC, giving it sole approval and registering authority.¹⁵ Previously, regulatory responsibility had been spread out over a number of agencies. Centralizing regulatory authority also served to instill a sense of ownership in one agency, which the government hoped would enable "greater focus on the development of a facilitative regulatory framework to address the urgent funding needs of the private sector."¹⁶

Deepening the Issuer Base by Improving Access: Reforming the Issuance Approval Process

To encourage corporations to raise debt financing in the capital markets, the Malaysian government took steps to simplify the issuance process. At the time of the CMP's publication, the time-to-market for bond issues was nine to twelve months.¹⁷ Raising funds in the capital markets is time-sensitive, and such long delays, especially when coupled with uncertainty about approval, can make this avenue unacceptable.

In July 2000, the SC released the *Guidelines on the Offering of Private Debt Securities* (PDS Guidelines). The guidelines removed and/or reduced a number of requirements, including underwriting requirements, minimum credit requirements, and restrictions on the use of proceeds. It also shifted to a post-vetting approval system, under which "the issuer and the principal advisor needed only to file a declaration of compliance with the PDS Guidelines." This reduced the approval bottleneck, allowing the SC to reduce the time to market for bond issues to fourteen working days. Lastly, the SC also introduced a shelf-registration scheme, which gave certain approved issuers even more control over the timing of issuance.

Broadening the Issuer Base: Introducing New Product Categories

In addition to deepening the issuer base through stepped-up issuance of government securities and private debt securities, Malaysia also developed frameworks that encouraged the development of new product categories, including real estate investment trusts (REITs) and other mortgage-backed debt

¹³ Securities Commission of Malaysia, 2001, p. 9.

¹⁴ Securities Commission of Malaysia, 2001, p. 9.

¹⁵ Securities Commission of Malaysia, 2004, p. 163.

¹⁶ Securities Commission of Malaysia, 2004, p. 163.

¹⁷ Securities Commission of Malaysia, 2004, p. 163.

instruments; Islamic bonds (including the world’s first convertible Islamic bond); and asset-backed securities (ABS).

To encourage the development of a domestic securitization and structured products markets, the SC published *Guidelines on the Offering of Asset-Backed Securities* (2001) and *Guidelines on the Offering of Structured Products* (2003). The guidelines were disclosure-based and introduced frameworks for more streamlined issuance procedures.¹⁸

The Malaysian government also introduced tax incentives to promote ABS, including tax deductions for expenses incurred in the issuance of ABS and tax neutrality (e.g., ABS would be taxed the same as other securities). In the ensuing three years, the SC approved 13 issues valued at RM7 billion.¹⁹

Broadening the Issuer Base: Foreign Issuers

Multilateral development banks were permitted to issue local currency bonds in 2004 and multinational corporations in 2006. Malaysia has been successful in encouraging foreign corporations to issue debt on its domestic market. South Korean firms were the first to raise financing on the Malaysian bond market—they would usually swap the issuance proceeds into U.S. dollars and then into Korean won.

Investors

The Challenge

As of 1999, Malaysia’s institutional investors, which included pension funds, insurers, and unit trusts, managed a relatively small share of the country’s savings. They controlled just RM280 billion—half of the banking sector’s RM560 billion. Investment management funds were heavily concentrated too, both institutionally (more than half was managed by a single institution—the government’s Employee Provident Fund) and in terms of asset diversification (most funds were invested in government bonds and bank deposits).

The SC perceived that as the economy grew and savings rose, institutional investors’ assets would grow too. (Malaysia then enjoyed one of the highest savings rates in the world.) The SC wanted to facilitate their growth to benefit the nation’s capital markets. At the same time, the SC worried that this growth would put “increased pressure” on the capital markets to provide attractive returns and to offer a wider and more sophisticated array of products and services.²⁰ With falling transaction costs and reduced barriers to cross-border financial flows, domestic investors might increasingly turn to markets abroad if their needs and preferences could not be met at home.²¹

The SC believed that Malaysia’s capital markets could remain attractive to domestic investors if domestic companies were seen as good investments and if investors had a wider array of products and

¹⁸ Securities Commission of Malaysia, 2004, pp. 165-167.

¹⁹ Securities Commission of Malaysia, 2004, p. 165.

²⁰ Securities Commission of Malaysia, 2001, p. 32.

²¹ Securities Commission of Malaysia, 2001, p. 32.

services to choose from. To this end, the CMP focused on regulations meant to enhance corporate governance and shareholder protection and on liberalizing the investment management industry.

Corporate Governance, Shareholder Protection, and Shareholder Activism

Poor corporate governance was widely seen as one of the causes of the Asian financial crisis.²² As such, the Ministry of Finance initiated corporate governance reform in 1998, before the CMP was drafted. The Finance Committee on Corporate Governance, which the SC headed, was formed in 1998. In 1999, it released a set of more than 70 recommendations for improving corporate governance, including the drafting of a prescriptive code of best practices, modeled on the UK's Hampel Committee; measures to make corporate boards more responsive to shareholders; better training and education; and laws to better protect minority shareholders.²³ The committee also made recommendations to improve disclosure and transparency, including guidelines on prospectus regulation and enabling civil lawsuits for insufficient or misleading disclosure.²⁴

The CMP further strengthened minority shareholders' rights and disclosure requirements. The Malaysian government passed additional corporate governance legislation in the following years, including the Anti-Corruption Commission Bill (2008) and the Witness Protection Bill (2004).

TABLE 3: Corporate Governance Reforms in Malaysia

1999-2000	2001	2004	2007	2009	2010
High-level Finance Committee Report on CG Code on CG Creation of Minority Shareholder Watchgroup	CMP1 CG requirements in KL Stock Exchange Listing Requirements	Whistle-blowing provision introduced in Securities Law	Qualification criteria for directors' audit committee strengthened Enforcement powers for civil and administrative actions expanded MSWG guide for best practices for institutional stakeholders	SC's enforcement powers strengthened by amendments to the Companies Act of 1965	Audit Oversight Board created Securities Industry Dispute Resolution Center established

Source: OECD, p. 162

At the same time, because institutional investors control large pools of money, their participation was seen as crucial to promoting higher standards of corporate governance.²⁵ The SC sought to promote shareholder activism among institutional investors through training and the development of a set of best practices, published in 2007.

²² Randhawa, p. 388.

²³ Singh and Yusof, pp. 26-27.

²⁴ Singh and Yusof, p. 27.

²⁵ Securities Commission of Malaysia, 2001, p. 50.

Expanding the Range of Products and Services

Institutional investors were given greater flexibility in how they managed their investments. They would be able to invest in unlisted funds in the expectation that this would serve to develop the private equity and venture capital industries; they would be allowed to use exchange-traded derivatives; and they would be allowed to outsource fund management to third parties.

BOX 4: Malaysia's Unit Trust Industry

Malaysia's asset management industry was introduced in 1959, an early beginning compared with other markets at similar stages of development. However, only five new companies, with a total of eighteen funds, would be established over the next twenty years (Singh and Yusof, p. 12).

A number of reforms were introduced to accelerate the development of the asset-management industry, including tax incentives, the liberalization of foreign ownership in stockbroking and fund-management companies, easing of limits that pension and provident funds can invest in equities, opening to foreign fund listing and investments.

First, they widened access to unit trusts by expanding distribution channels. Originally, unit trusts were marketed and distributed by agents of the unit-management trust companies, which were concentrated in the cities. This meant many markets, especially in small towns, lacked access to unit trusts. In 2000, banks were authorized to distribute unit trusts, as were post offices. Regulations were passed to allow unit trusts to be sold online. In 2007, the SC allowed licensed corporate unit trust advisers to distribute unit trusts (SC, p. 20).

Second, the introduction of Shariah-compliant unit trust funds made these investments acceptable to a broader range of people.

Third, funds were allowed to invest abroad starting in 2005, giving Malaysian investors the ability to diversify their portfolios.

Finally, they allowed foreign asset management firms to compete in the Malaysian market. Since 2009, foreign firms have been allowed to establish wholesale fund management companies with 100 percent foreign ownership; in the retail sector, the foreign ownership ceiling was raised to 70 percent (OECD, p. 224-25).

Foreign Investors and International Integration

Malaysia de-internationalized the ringgit during the Asian financial crisis. It moved back toward a flexible exchange rate regime in 2005 and has gradually liberalized the foreign exchange administration rules, which facilitate larger trade and FDI flows. Foreign participation rose in the Malaysian equities and bond markets. Foreign investors held 18.5 percent of securities listed on Bursa Malaysia as of 2011.²⁶

Market Institutions: Modernizing Equity and Derivatives Exchanges

The Challenge: Stagnation in the Equities and Derivatives Markets

Malaysia's stock market dates back to the colonial era, but the modern exchange, the Kuala Lumpur Stock Exchange, was established in 1973. In the 1980s and 1990s, the exchange saw its infrastructure

²⁶ OECD, p. 223.

modernized. In the late 1990s, Malaysia also introduced Mesdaq, an OTC market exchange, to promote high-growth technology companies.

Among the countries of Southeast Asia, Malaysia was early to develop markets in derivatives. The Kuala Lumpur Commodity Exchange (KLCE) was established in 1980—the first such exchange in Southeast Asia. The Kuala Lumpur Options and Financial Futures Exchange (KLOFFE) was established in 1990. Finally, the Malaysia Derivatives Clearing House (MDCH) was established in 1995.

Malaysia's equity market grew substantially in the early 1990s. Several major privatizations contributed to the equity market's quintupling in five years, from RM132 billion in 1990 to RM807 billion in 1996.²⁷ However, during the financial crisis, Malaysia's stock market capitalization fell by half, and market liquidity was also dramatically reduced: From a pre-crisis peak of 230 percent of GDP in 1993, trading fell to 40 percent in 1998 and only slowly recovered. Foreign portfolio flows also fell dramatically.

The SC was concerned with the impact of the crisis on the equity market, as well as the exchange's broader competitiveness. The SC noted that "as large issuers seek greater liquidity and ease of access to new capital, exchanges are increasingly competing amongst each other to increase their market share."²⁸

Consolidation of the Exchanges

A focus of the CMP was to improve the competitiveness and efficiency of market institutions and to enhance liquidity and efficiency in the secondary market.

Looking at Malaysia's own exchanges, the CMP expressed concern that "the current existence of several market institutions as separate entities results in a fragmentation of liquidity and disperses the overall capacity, efficiency, and marketing position of Malaysian market institutions."²⁹ The CMP noted that many exchanges abroad were responding to competition through consolidation and/or strategic alliances.

The theory was that merging exchanges could enhance liquidity, lower costs, and make it easier to introduce and support new products. As Rajit Singh, the executive chairman of the SC, has noted, consolidation can "improve economies of scale and scope by sharing market infrastructure and integrating common operation functions across the merged institution."³⁰ A single exchange will find it easier, through its enhanced prominence and negotiating strength, to "pursue strategic alliances and other international business strategies."³¹

²⁷ Securities Commission of Malaysia, 2001, p. 10.

²⁸ Securities Commission of Malaysia, 2001, p. 37.

²⁹ Securities Commission of Malaysia, 2001, p. 39.

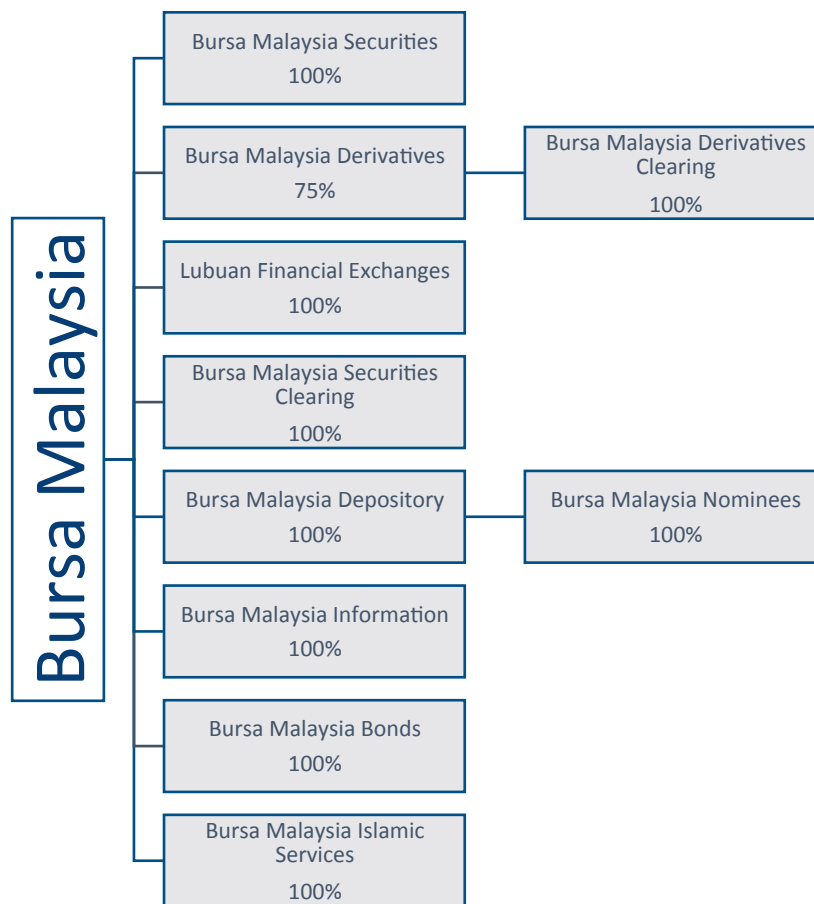
³⁰ Singh and Yusof, p. 20.

³¹ Singh and Yusof, p. 20.

Finally, the SC believed that a single exchange would make it easier to introduce new products and services and to develop “market segments that do not presently have sufficient depth to support separate exchanges.”³²

In 2001, Bursa Malaysia was formed from the merger of the two equities exchanges (KLSE and Mesdaq), three derivatives exchanges (KLOFFE, COMMEEX, and MME), three clearinghouses, and one central depository.³³ Today, Bursa Malaysia is a holding company for all Malaysian institutions operating in the Malaysian equity and derivatives markets (IMF, Market Infrastructure, p. 8). Bursa Malaysia has two main subsidiaries: Bursa Malaysia Securities (BMS) is a wholly owned subsidiary and is the stock exchange where all equities, ETFs, warrants, and REITs are traded, along with commercial paper and Islamic securities.³⁴ The other subsidiary, Bursa Malaysia Derivatives, in which the Chicago Mercantile Exchange maintains a 25 percent equity stake, is the futures and options exchange.

FIGURE 4: Bursa Malaysia Organization Structure (Current)



Source: Bursa Malaysia

³² Singh and Yusof, p. 20.

³³ Securities Commission of Malaysia, 2004, p. 136.

³⁴ With the exception of commercial paper, all other fixed-income securities are traded on the BNM-managed system, the Fully Automated System for Issuing/Tendering (FAST).

Demutualization of Exchanges

After consolidating the exchanges under one organization, the CMP turned to the demutualization of the exchanges. Demutualization is the process of converting a member-owned (mutual), nonprofit exchange into an investor-owned, for-profit corporation.³⁵ Demutualization was seen to offer several potential benefits. First, the sale of the exchange could bring in capital which could be used to invest in new technology and expand the capacity of the exchange. Second, demutualization could lead to enhanced corporate governance, as the exchange would now be responsible for creating value for its shareholders. Finally, and relatedly, being profit-driven could potentially incentivize the exchange to focus on serving the interests of all its stakeholders and “not simply reflect the majority vote among different-sized brokers.”³⁶

The Malaysian Parliament passed the Demutualization (Kuala Lumpur Stock Exchange) Act 2003, which came into force on January 5, 2004. Bursa Malaysia was listed on March 18, 2005.

Strengthening Intermediaries: Consolidating and Reforming the Stockbrokerage Industry

The Challenge: Lack of Competition and Low Liquidity

Market makers contribute to the smooth functioning of both primary and secondary markets by providing liquidity services and reducing search costs.³⁷ Market makers include securities dealers, who maintain inventories of securities and stand ready to buy or sell at quoted prices (and profit from the spread) and brokers, who act on behalf of buyers and sellers (and profit from commissions).

In Malaysia, the “limited intensity of competition” within the stockbroking industry was seen as a cause of low liquidity and also of a lack of innovation in products and services.³⁸ The problem, as the SC saw it, was a brokerage industry that was fragmented and overly protected. As of 2000, Malaysia had 62 licensed stock brokerages, 32 futures-broking companies, and 735 futures brokers’ representatives.³⁹ Firms were widely dispersed, owing to a government policy that limited the concentration of brokerage firms by geographic region.⁴⁰ The industry was also sheltered by a number of barriers to entry, including strict licensing and domestic ownership requirements and fixed brokerage commissions.⁴¹

The crisis had revealed the fragility of Malaysia’s stockbrokerage industry. Many were poorly governed and did not have proper risk controls in place. The SC deemed the industry to be too inflexible and, because of its dependence on brokerage fees, too exposed to market downturns.⁴² It determined that the industry needed to be consolidated and liberalized.

³⁵ Ferhani, p. 30.

³⁶ Singh and Yusof, p. 21.

³⁷ Carmichael and Pomerleau, p. 10.

³⁸ Securities Commission of Malaysia, 2004, p. 223.

³⁹ Singh and Yusof, p. 5.

⁴⁰ Singh and Yusof, p. 13.

⁴¹ Singh and Yusof, p. 24.

⁴² Securities Commission of Malaysia, 2001, p. 34.

Consolidation and Liberalization

Consolidation within the stockbroking industry, the SC believed, “would increase economies of scale and scope; create larger, better-capitalized, and better-managed institutions; and ultimately provide investors with higher-quality services at reasonable cost.”⁴³ In 2000, the SC released the *Policy Framework for Stockbroking Industry Consolidation and the Reduction of Transaction Costs*, which outlined the strategy for fostering mergers and acquisitions in the industry. It also established incentives for the creation of a new class of full-service “universal brokers” (UBs). Universal brokers would be allowed to offer a much wider range of intermediation services, including “corporate finance services, futures broking, fund management, futures fund management, and dealing in debt securities.”⁴⁴ The SC believed that such firms would be better positioned to stand up to international competition as Malaysia’s capital markets were liberalized. Firms that wished to become UBs were required to merge with at least three other brokerages.⁴⁵ Firms that did not intend to become UBs were still required to merge with at least one other firm. By the end of 2003, six UBs had been established.⁴⁶

The SC also deregulated the stockbroking industry’s fixed-fee structure, as well as the geographic restrictions on branching. Finally, in an effort to further spur competition, the SC liberalized foreign participation in the stockbroking industry.

BOX 5: Foreign Competition

Allowing foreign entry may benefit capital market development through:

- Access to foreign expertise
- Access to foreign capital
- Risk sharing
- Enhanced competition (Carmichael, p. 213)

This approach also poses risks, one of which is that foreign firms will utterly dominate local firms, and so local institutions will never develop (Carmichael, p. 213). Further, if foreign firms do not employ domestic residents, the desired skills transfer will not take place (Carmichael, p. 213). Some countries accept foreign dominance of at least segments of their capital markets, reasoning that having developed capital-market institutions is more important than whether those institutions are domestic or foreign.

Whether or not to open up domestic capital markets to foreign competition is subject to government discretion regarding the trade-offs mentioned above. In keeping with the multilateral commitments it had entered into (including the general Agreement on Trade in Services and the ASEAN Framework Agreement on Services), Malaysia began to liberalize rules on foreign involvement in financial services beginning in the mid-1990s. The CMP helped Malaysia to further move away from prescribed hard limits on foreign ownership and toward assessments that emphasized prudential and best-interest-of-Malaysia criteria. Malaysia has now substantially increased foreign involvement in asset management and stockbroking.

⁴³ Singh and Yusof, p. 25.

⁴⁴ Securities Commission of Malaysia, 2004, p. 229.

⁴⁵ Singh and Yusof, p. 25.

⁴⁶ Securities Commission of Malaysia, 2004, p. 230.

Developing an Internationally Competitive Islamic Financial Center

The Opportunity: Early Development of the Islamic Capital Market

Malaysia's Islamic capital market traces its history back to the Pilgrims Fund Board. Established in the 1960s to help Malaysian Muslims save for their pilgrimage to Mecca, the fund also offered investments tailored for Muslim investors.

The Islamic Banking Act (1983) and the Takaful Act (1984) established the laws that would govern Islamic banking and insurance in Malaysia, laying the foundations for the broader development of Malaysia's Islamic financial center.

The Islamic capital markets were given a major push with the establishment of the SC in 1993, which was given a mandate to supervise and develop them. Through the 1990s, the SC worked with Islamic jurists and market practitioners to identify publicly listed companies that adhered to Islamic principles (building off of earlier work by the BNM), as well as to develop a series of guidelines related to the development of Islamic financial reporting and accounting principles, investor guidance, and so on. By 1997, 25 percent of corporate bonds issued were Shariah-compliant, and Islamic unit trusts accounted for 12 percent of the industry's assets under management. More than half of the companies listed on Malaysia's stock exchange were listed as in compliance with Islamic principles. Finally, by the late 1990s, four conventional stock brokerages had Islamic windows and one new Islamic stock brokerage had been established.

The Opportunity: Identifying a Competitive Advantage

Observing that markets “are increasingly focusing on niche and value-added market segments,” the CMP identified the Islamic capital market as an area where Malaysia had a potential internationally competitive advantage.⁴⁷

This assessment was based on the following observations:

- As a result of strong economic growth, Malaysia's population, which was roughly 60 percent Muslim, was characterized by rising affluence and a high savings rate, which provided the country with a strong domestic base on which to establish Islamic capital markets.
- Malaysia is located in the most populous Muslim region in the world (there are twice as many Muslims in South and Southeast Asia as in the Middle East and North Africa), which meant it had a large pool of prospective customers in the near-abroad.
- Further abroad, rising oil prices were leading to an increase in Muslim-controlled wealth in the Middle East.
- Finally, Malaysia's development of its domestic Islamic capital market gave it a critical mass of existing funds and expertise, not to mention a large pool of financial services professionals who were both Muslim and English-speaking.

⁴⁷ Securities Commission of Malaysia, 2001, p. 53.

Developing a “viable parallel market for financing and investment” would be a major challenge, the CMP noted, as “the current range of available and liquid Islamic-based products is small in comparison with the broader conventional capital market.”⁴⁸ However, the limited supply, in combination with the estimated “latent” demand, presented an attractive opportunity for “local industry players to establish their niche in the business, as well as participate in a large global market with relatively few players.”⁴⁹ In the early 2000s, Muslim investors had an estimated US\$800 billion invested globally in conventional banks.

Building on the Momentum of the Previous Decade

The CMP issued 13 recommendations designed to build on the momentum of the previous decade. This included further strengthening the financial reporting and accounting treatments of Islamic securities and investment products, which led to the development of the world’s first Islamic accounting standards. The CMP also called for new regulations on Islamic bonds and unit trusts.

These efforts were complemented by changes to the Malaysian tax code in 2003, which provided tax incentives to further develop the Islamic bond market.

On the international front, the Malaysian government established the Malaysia International Islamic Financial Center (MIFC), which was designed to strengthen linkages between Kuala Lumpur and other Islamic finance centers. The center focuses on Islamic bond origination, Islamic wealth management, international Islamic banking and insurance, and education and training.⁵⁰ In 2007 and 2009, Malaysia entered into mutual-recognition agreements (MRA) with the UAE and Hong Kong on the cross-border marketing and distribution of Islamic funds.⁵¹

The Malaysian Islamic financial sector’s share of national GDP increased from 0.3 percent in 2000 to 2.1 percent in 2009.⁵² Malaysia’s Islamic capital markets grew at an annual rate of 13.6 percent from 2000 to 2010, tripling in size—they are now the largest in the world.⁵³ A number of international issuers have raised funds in Malaysia’s Islamic bond market, including the International Finance Corporation, the Gulf Investment Council (based in Kuwait), and the Noble Group in Hong Kong.⁵⁴

Cultivating Human Capital

As financial sectors develop, they require workers with more specialized skills sets. In many countries, insufficient human capital remains the biggest obstacle to further capital-market development: “One of the most pressing challenges confronting emerging markets is the limited availability of financial sector

⁴⁸ Securities Commission of Malaysia, 2001, p. 53.

⁴⁹ Securities Commission of Malaysia, 2001, p. 53.

⁵⁰ Securities Commission of Malaysia, 2014, p. 68.

⁵¹ Securities Commission of Malaysia, 2014, p. 68.

⁵² OECD, p. 217.

⁵³ OECD, p. 217.

⁵⁴ Securities Commission of Malaysia, 2014, p. 65.

skills and the urgent need to develop human capital by establishing a base of capable professionals such as bankers, accountants, lawyers, appraisers, analysts, and insolvency experts.”⁵⁵

The CMP included a focus on “the development of human capital through the introduction of institutional arrangements to provide comprehensive education and learning programs for the financial services industry.”⁵⁶ Programs were established with the goal of developing different skills sets, ranging from entry level to middle management to the executive level. These included the Financial Sector Talent Enrichment Program; the International Center for Leadership in Finance (ICLIF), established in 2003; and INCEIF, the global university of Islamic Finance.

Conclusion

Over the 2001-2010 period covered by the CMP, Malaysia achieved notable successes in broadening and deepening its capital markets. It also has fallen short in key areas, however, and in the past several months has been marred by potentially serious failures.

Among the noteworthy successes that Malaysia has continued to achieve in further developing its capital markets over this ten-year period are the development of the corporate bond market and solidification of Malaysia’s status as a global leader in Islamic finance. Over the decade since the SC initiated reforms, the corporate bond market grew steadily. Today, Malaysia’s corporate bond market is much larger than those of most other emerging-market countries and is comparable in size to those in many developed countries.⁵⁷ The Islamic bond market has been a key driver of this growth: Today, about 60 percent of Malaysia’s bond issuance is Shariah-compliant, and Malaysia’s market now accounts for 60 percent of Islamic bonds issued worldwide.⁵⁸

Efforts to enhance the use of the equity market have yielded more mixed results. The number of companies listed on Bursa Malaysia has declined slightly during the past decade. Although the market’s capitalization had been rising steadily since the global financial crisis, it has fallen substantially over the past year.

Moreover, the IMF and World Bank observed in their most recent financial sector assessment, published in 2013, that the legal basis for the SC’s independence needs to be bolstered. They also expressed concern that the Malaysian government remains a “major player in the financial system” and exercises “substantial de facto ownership in the financial sector,” largely through the equity holdings of government-linked investment companies (GLICs), such as the state-owned pension fund, EPF.⁵⁹

The ongoing political crisis, sparked by allegations of corruption at one of Malaysia’s sovereign wealth funds, has more recently highlighted the dangers of failing to put in place and foster the requisite

⁵⁵ Carmichael, p. 199.

⁵⁶ Aziz, p. 3.

⁵⁷ World Bank and IMF, 2013a, p. 4.

⁵⁸ World Bank and IMF, 2013a, p. 4.

⁵⁹ World Bank and IMF, 2013d, p. 6.

institutional governance structures at key market institutions. It also highlights the importance of an ecosystem promoting good governance, including an independent judiciary and integrity in the civil service.⁶⁰ While Malaysia has continued to make real progress in broadening and deepening its capital markets over the past fifteen years, institutional weaknesses unfortunately threaten to undermine that progress. Regulatory and technical reforms are essential to capital-market development, but institutional integrity is critical in the long run.

⁶⁰ 1Malaysia Development Berhad (1MDB), set up to attract foreign investment that would drive long-term economic development, is accused of funneling over \$675 million, possibly from the Middle East, to the personal bank accounts of Najib Razak, Malaysia's prime minister and finance minister. At the same time, 1MDB accumulated a significant amount of debt. The political crisis has exacerbated the economic downturn now underway (Malaysia, a net commodities exporter, has been hit hard by the downturn in oil prices), and has also sparked street protests and raised the possibility of wider social unrest.

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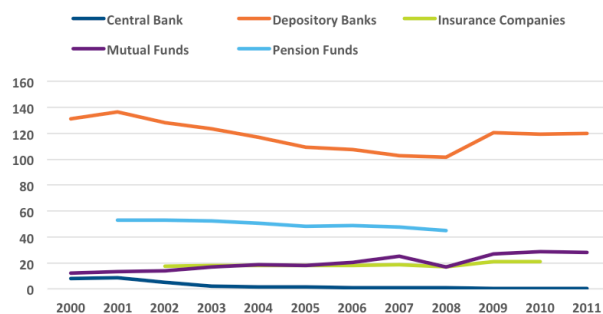
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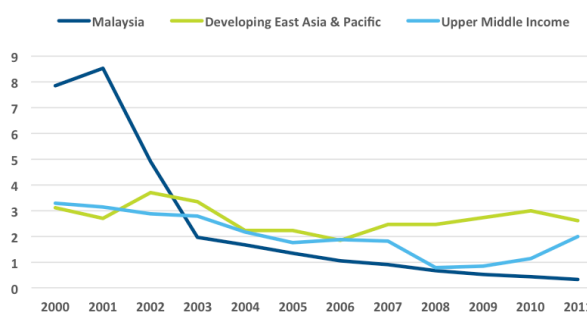
Appendix 1.1: Malaysia Financial Sector

Malaysia Financial Sector Assets to GDP (%)



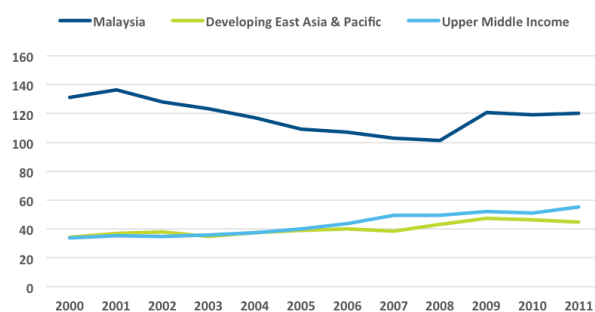
Source: World Bank Global Financial Development Database

Central Bank Assets to GDP (%)



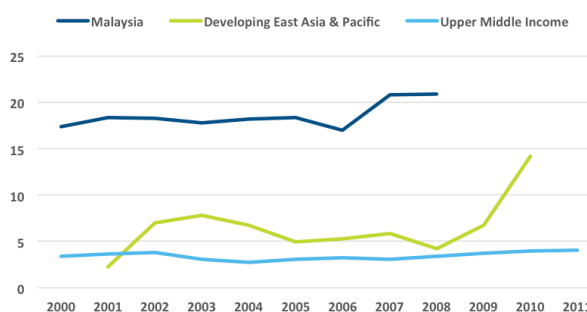
Source: IMF International Financial Statistics Database

Deposit Money Banks Assets to GDP (%)



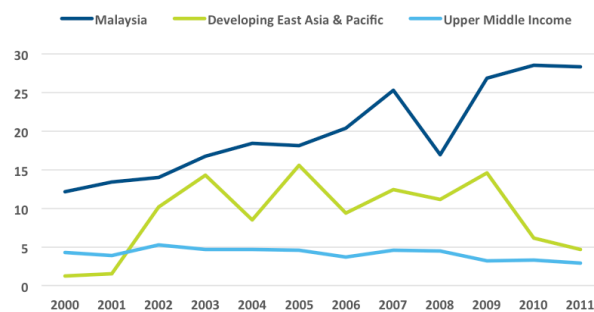
Source: IMF International Financial Statistics Database

Insurance Company Assets to GDP (%)



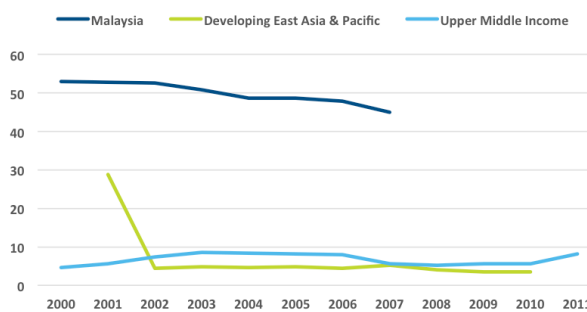
Source: World Bank Global Financial Development Database

Mutual Fund Assets to GDP (%)



Source: World Bank Global Financial Development Database

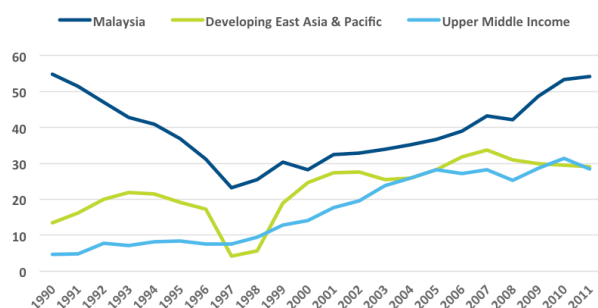
Pension Fund Assets to GDP (%)



Source: World Bank Global Financial Development Database

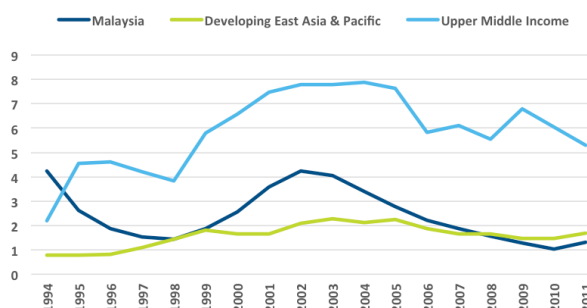
Appendix 1.2: Malaysia Outstanding Debt Securities

Outstanding Domestic Public Debt Securities to GDP (%)



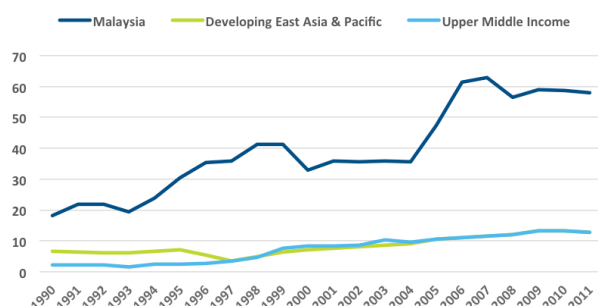
Source: BIS, via World Bank Global Financial Development Database

Outstanding Intl Public Debt Securities to GDP (%)



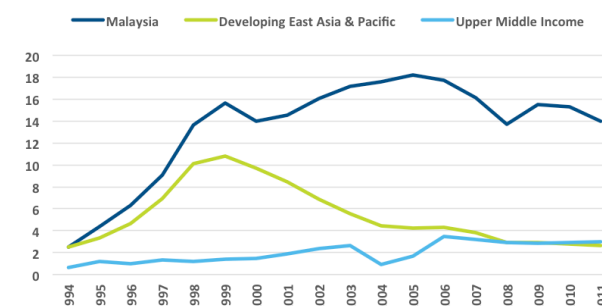
Source: BIS, via World Bank Global Financial Development Database

Outstanding Domestic Private Debt Securities to GDP (%)



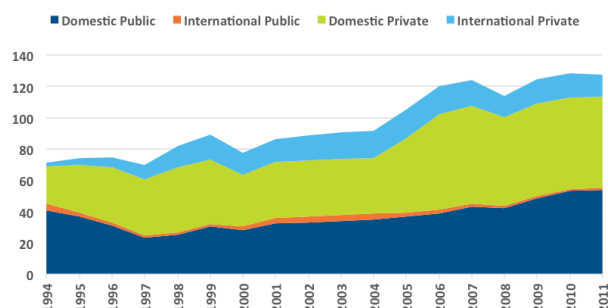
Source: BIS, via World Bank Global Financial Development Database

Outstanding Intl Private Debt Securities to GDP (%)



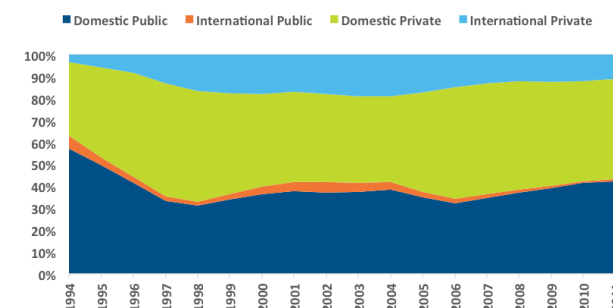
Source: BIS, via World Bank Global Financial Development Database

Malaysia Outstanding Debt Securities to GDP (%)



Source: BIS, via World Bank Global Financial Development Database

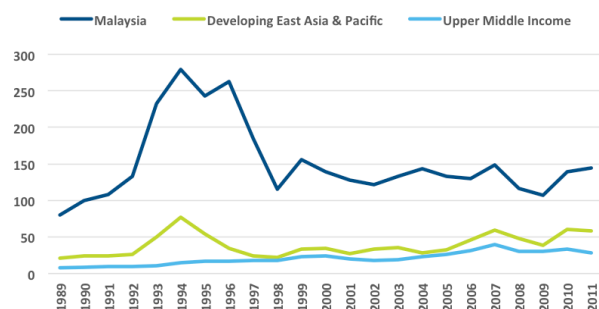
Malaysia Outstanding Debt Securities Composition



Source: BIS, via World Bank Global Financial Development Database

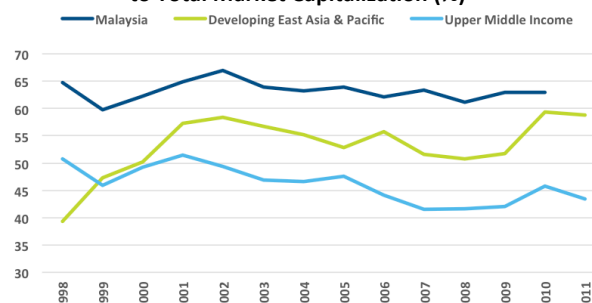
Appendix 1.3: Malaysia Stock Market

Stock Market Capitalization to GDP (%)



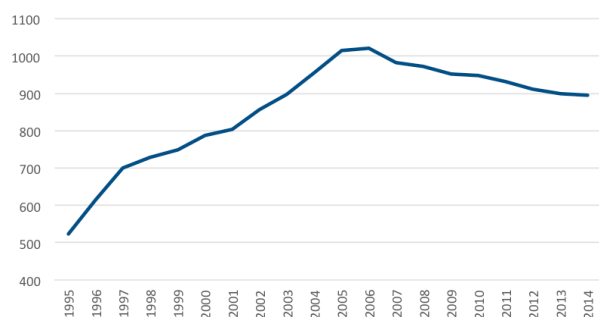
Source: Standard & Poor's, via World Bank's Global Financial Development Database

Market Capitalization Excluding Top 10 Companies to Total Market Capitalization (%)



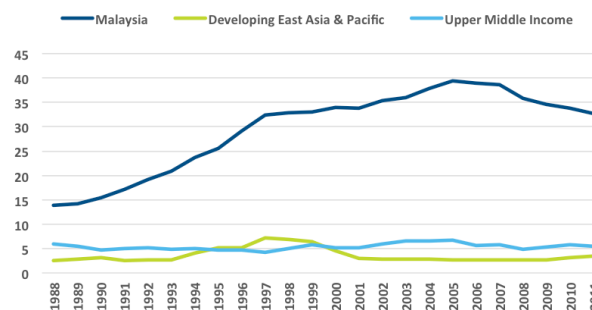
Source: World Federation of Exchanges, via World Bank's Global Financial Development Database

Number of Listed Domestic Companies (Total)



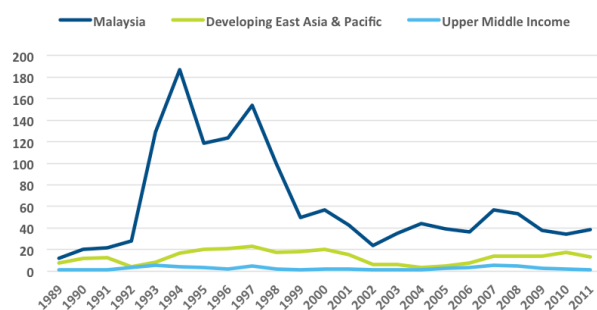
Source: Standard & Poor's, via World Bank's World Development Indicators Database

Number of Listed Companies per 1,000,000 People



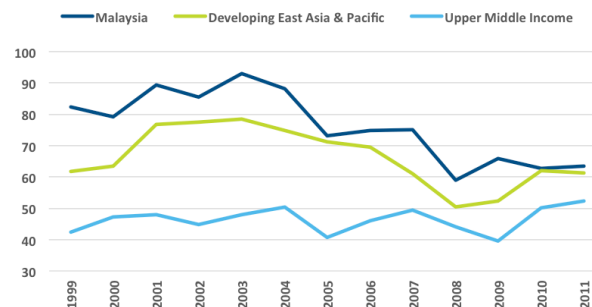
Source: Standard & Poor's, via World Bank's Global Financial Development Database

Stock Market Total Value Traded to GDP (%)



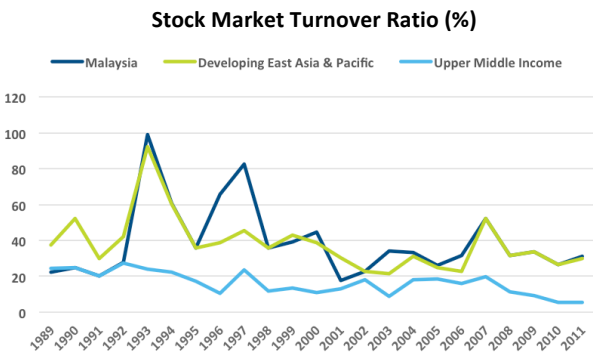
Source: BIS, via World Bank's Global Financial Development Database

Value Traded excluding Top 10 Traded Companies to Total Value Traded (%)

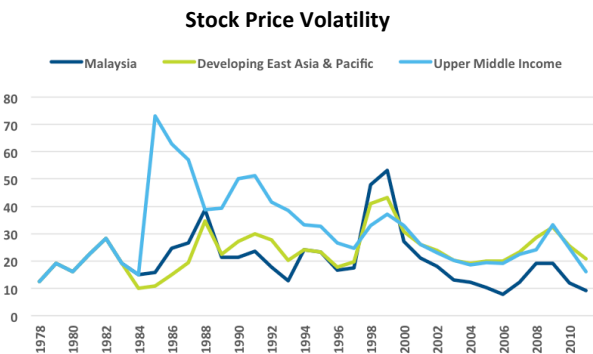


Source: World Federation of Exchanges, via World Bank's Global Financial Development Database

Appendix 1.3: Malaysia Stock Market (continued)



Source: Standard & Poor's, via World Bank's Global Financial Development Database



Source: Bloomberg, via World Bank's Global Financial Development Database

Appendix 2: CMP Development Timeline

1999	
August 6	The CMP is announced.
September	The Capital Market Strategic Committee (CMSC) is established.
October	The CMP website is launched by the SC.
2000	
February	SC hosts a colloquium on corporate bond market development.
March	SC invites public comment on electronic commerce consultation paper.
April	SC presents framework for stockbroking industry consolidation and reduction in transaction costs.
May	SC issues new guidelines on prospectus contents.
May	SC issues Code of Conduct for market institutions.
June	SC announces commitment to a shorter settlement cycle by end-2000.
June	SC announces modifications to the framework for stockbrokerage consolidation.
October	The CMP is presented to the minister of finance.
December	The CMP is approved by the minister of finance.
2001	
February 22	The CMP is released and put into effect.

Appendix 3: Committee Members

Capital Market Strategic Committee Members

- 1. Datuk Ali Abdul Kadir**
Chairman, Securities Commission
- 2. Y Bhg Tan Sri Dato Francis Yeoh**
Managing Director, YTL Corporation Bhd
- 3. Y Bhg Dato Azlan Hashim**
Executive Chairman, Kuala Lumpur Stock Exchange
- 4. Y Bhg Dato Megat Najmuddin Megat Khas**
Chairman, Asian-Pac Holdings Bhd and Chairman, Federation of Public Listed Companies
- 5. Datuk Mohaiyani Shamsudin**
Managing Director, Mohaiyani Securities Sdn Bhd and Chairperson of the Association of Stockbroking Companies in Malaysia
- 6. Mr. Jeyaratnam a/I Tamotharam Pillai**
Chief Executive, Amanah Merchant Bank Berhad
- 7. Mr. Stephen Taran**
Managing Director, Corporate Bond Research, Salomon Smith Barney (M) Sdn Bhd

Capital Market Advisory Council Members

Member	Sector/Industry Type
Datuk Ali Abdul Kadir Chairman, Securities Commission	Government
Datin Zarinah Anwar Deputy Chief Executive, Securities Commission	Government
Tan Sri Dato' Francis Yeoh Managing Director, YTL Corporation Bhd	Infrastructure
Raja Datuk Arshad Raja Tun Uda Executive Chairman, PricewaterhouseCoopers	Accounting
Datuk Mohaiyani Shamsudin Managing Director, Mohaiyani Securities Sdn Bhd	Stockbroking
Dato' Abdul Azim Mohd Zabidi Chairman, Bank Simpanan Nasional	Depository Institution (government-owned)
Dato' Azman Yahya Chairman, Pengurusan Danaharta Nasional Bhd	Financial Company Specializing in NPLs
Dato' Megat Najmuddin Megat Khas Chairman, Pemas International Holdings Bhd	Conglomerate
Dato' Dr. Abdul Halim Haji Ismail Executive Chairman, BIMB Securities Sdn Bhd	Stockbroking
Dato' Seri Hwang Sing Lue Managing Director, Hwang-DBS Securities Bhd	Stockbroking
Dr. R. Thillainathan Finance Director, Genting Bhd	Conglomerate
Jeyaratnam Tomotharam Pillai Chief Executive Officer, Alliance Merchant Bank Bhd	Depository Institution
Iskander Ismail Executive Director, Amanah SSCM Management Bhd	Fund Management
Hamzah Mahmood Chief Executive Officer, Mayban Securities Sdn Bhd	Bank
Chok Kwee Bee Executive Director, BI Walden Management Sdn Bhd	Venture Capital
Stephen M. Taran Managing Director, Corporate Bond Research Salomon Smith Barney, New York	U.S. Investment Bank
Daisuke Takeuchi Head of Asia Oceania, Nomura Co. Ltd., Japan	Japanese Financial Holding Company

About the Author

Jim Woodsome is a senior program research analyst with the Milken Institute Center for Financial Markets, where he conducts research and helps manage initiatives related to the center's Capital Markets for Development program.

About the Center for Financial Markets

Based in Washington, D.C., the Milken Institute Center for Financial Markets promotes financial market understanding and works to expand access to capital, strengthen—and deepen—financial markets, and develop innovative financial solutions to the most pressing global challenges.

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