



**PASLA & RMA'S 6TH ANNUAL SECURITIES LENDING CONFERENCE 2009
WEDNESDAY, 4 MARCH 2009
MANDARIN ORIENTAL KUALA LUMPUR**

OPENING SPEECH

**BY MR. DEVANESAN EVANSON, CHIEF MARKET OPERATIONS OFFICER OF
BURSA MALAYSIA BERHAD**

A very good morning,

Mr. Lawrence Komo, Chairman of Pan Asia Securities Lending Association (PASLA)

Mr. Michael P. McAuley, Chairman of Risk Management Association (RMA) Committee
on Securities Lending

Distinguished guests,

Ladies and gentlemen,

I am indeed pleased to be here today at the 6th Annual Asian Securities Lending Conference 2009. On behalf of Bursa Malaysia, I would like to thank the Pan Asian Securities Lending Association (PASLA) and Risk Management Association (RMA), not only for the invitation to speak, but also for its initiatives in promoting development in the securities lending industry. The timing of this conference is very apt, especially under the current challenging global economic environment, as it reflects the strong relevance of the securities lending business in the Asia-Pacific region.

Needless to say, the global financial crisis has demonstrated how regulators in the major developed financial markets can be unpredictable. Case in point is September 19th, 2008 – this date will be etched in my mind as the day when the SEC announced a ban on short-selling on financial stocks. If you will indulge me, I would like to take you back one decade ago to 1998. When the Asian financial crisis reared its head, I was, at that time, the head of Bursa Malaysia's regulatory division. My team was responsible for executing what was perceived then to be the un-thinkable for those of you who had



positions in Malaysian securities - banning short-selling and securities borrowing and lending. We believe that this move was needed at that time. In fact, the same move by the SEC recently justifies our course of action ten years ago, though the merits of such a move may be questioned by many.

However, in 2007, Bursa Malaysia instituted several financial liberalisation initiatives, one of which was the re-introduction of Securities Borrowing and Lending, Regulated Short Selling, as well as the launch of Single Stock Futures and a programme for developing liquidity providers, Proprietary Day Trading (PDT). Under the PDT programme, approved brokers are allowed to conduct day trading activities that may include intra-day short under a controlled and regulated environment. To preserve a fair and orderly market, the exchange observes stringent monitoring of the day trading activities of the brokers that have been approved to carry out PDT.

The point I wish to make here is that regulators like Bursa Malaysia may implement strong regulatory actions when faced with a crisis. For us, maintaining market integrity was the order of the day as investor protection was at stake if such actions were not taken. When it was established that we could implement short selling under a more controlled environment, we did so as we believe in the role short selling plays towards a more vibrant marketplace.

Ladies and gentlemen,

I believe you will agree with me when I say that there still remains a lot more to do to demystify the very opaque world of short selling.

There is a school of thought, supported by empirical data, that short selling restrictions are against the best interests of investors because short-selling does not allow for the efficient functioning of markets. I am hopeful that conferences like this may provide some insights into this debate on short-selling and also some other latest development in the securities lending industry.

To further throw light on this subject, it may be beneficial for the industry to create formalised securities borrowing & lending guidelines especially for the emerging markets



in the Asia-Pacific region. The need to regulate short-selling has led to the emergence of an "exchange-hosted" securities borrowing & lending or SBL model which is common in the Asia-Pacific region. Such a model was developed with the prime objective of meeting regulatory requirements as a first priority. A clear set of guidelines for the region will go a long way to help emerging markets which are implementing exchange-hosted SBL framework to grapple with the common issues associated with implementing a business-friendly SBL framework in their region.

Ladies and gentlemen,

Bursa Malaysia has made several developments in the SBL and short selling area. As some of you may be aware, we are in the midst of enhancing our SBL infrastructure to further our market competitiveness in the region. Plans are underway to implement an OTC model, which is already in its final stages, and it is slated to be operationalised in the 2nd half of 2009. In this OTC model, participants are given the option to agree to their OTC agreement and input the transactions into Bursa Malaysia's reporting system which serves two-fold:

- (i) It is a means of effecting finality to the SBLNT transaction as it is through such transactions that movement of the loaned securities is effected; and
- (ii) Monitoring and statistical purposes.

Another initiative which is a work-in-progress is the Shariah-compliant alternative to securities borrowing and lending. Aptly called Islamic Securities Selling & Buying or iSSB for short, it is structured using the *waad* (unilateral promises) principle. Such transactions involve the actual transfer of ownership of permitted Shariah-compliant stocks between contracting parties as opposed to the conventional practice of borrowing and lending. Therefore, this Islamic structure provides a complete end-to-end Shariah solution for financial institutions to develop and offer Shariah-compliant instruments to global investors.

Ladies and gentlemen,

There are a lot of interesting views out there, not only on the subject of short selling, but also on issues surrounding the role of SBL in the present global economic environment. . I applaud conferences such as this as it provides an interactive forum to raise issues and



debate matters of concern to the industry. It is imperative that for the market to progress forward, we need to be cognisant of industry views, yet also understand why certain stances are adopted. Yes, making policy changes is not an easy task but we also need to ensure that there is more involvement and engagement from the industry on the matters of securities borrowing & lending and short-selling.

There is a mounting task of benchmarking our market with the developed markets in the securities lending area. However, I, and I hope like everyone else who are here today, am looking forward to learning about the challenges and opportunities to help further grow this market. Today, I am certainly pleased to see the immense commitment put forth towards growing this investment area from all market players despite the dismal economic backdrop that we are in. As a market operator, Bursa Malaysia welcomes any feedback and initiatives that are poised to elevate our securities lending business to greater heights.

Before I take my leave, it is my hope that the discussions at this forum will enable us to support each other through these challenging times. On that note, I take this opportunity to thank all guest speakers for sharing their valuable perspectives. To all delegates, I wish you all a productive and fruitful conference.

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