

ASLI 13TH MALAYSIAN CAPITAL MARKET SUMMIT 2008
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LUNCHEON ADDRESS
BY MR. DEVANESAN EVANSON, CHIEF MARKET OPERATIONS OFFICER OF
BURSA MALAYSIA BERHAD

Good afternoon,

Yang Berbahagia Dato' Dr Michael Yeoh, Chief Executive Officer, Asian Strategy & Leadership Institute (ASLI)

Distinguished guests,

Ladies and gentlemen,

It is my pleasure to be here today and I would like to thank ASLI for inviting Bursa Malaysia to deliver this Luncheon Address. I was asked to share my perspective of where the capital market is headed to and how we are coping amidst the current economic turmoil.

It is a given that our market, like many others, has to some extent, been impacted by the effects of the global contagion. However, we must remember that the Malaysian economy and the capital market have demonstrated a relatively high degree of resiliency, in comparison to its regional counterparts thus far. Indeed, when the Dow Jones Index plunged by 679.95 points or 7.7%, FTSE fell 5.2%, Singapore's STI dropped by 3.02%, Hong Kong's Hang Seng declined by 5% and Sydney fell 4.2% on Monday, our market only fell by 0.3%.

The Malaysian economy is also reasonably healthy as demonstrated by the recent announcement of the country's third quarter GDP of 4.7%. Our Finance Minister, Dato' Seri Najib Tun Razak has stated that the Malaysian economy will be able to reach 5% growth this year if a minimum of 1.4% growth is achieved in the fourth quarter. Future outlook is also optimistic as our Finance Minister also stated that the target of 3.5% growth next year could still be maintained. Our financial and fiscal systems have proven to be fundamentally resilient. The Government remains committed to its pro-business policies to attract foreign investors to the Malaysia.

We also recognise that the global economy remains an important lynchpin to our country's growth. To that end, measures are taken to position Malaysia favourably for recovery. For instance, the Government's recently announced stimulus packages are aimed to encourage domestic consumption, mitigate inflationary effects and boost the overall corporate wealth of Malaysia. All of these are poised to cushion the impact of the global recession and ensure that the country's competitiveness is enhanced. These forward-looking measures are also in line with the economic recovery plans adopted by global policy makers and central banks in managing the prevailing challenging condition.

Notwithstanding the weak sentiment that surrounds us, let me be the first to say that we still have some way to go. Our capital market still commands the attention of international institutional investors. Currently, foreign investors constitute about 40% of the bourse's trading participation (based on value of trades) despite the economic downturn. Yes, we have a few hurdles to overcome but the Malaysian market has progressed significantly over the years despite the many challenges, including the past Asian crisis that we have experienced. Suffice to say, Malaysia has certainly made strides in elevating its capital market competitiveness. The liberalisation measures, increased sophistication of derivatives and equities products as well as strong headway in Islamic capital and financial market development – all have encouraged foreign participation in our market. Moreover, the recent relaxation of the 30% minimum Bumiputera equity quota is poised to make the market more attractive for listing and also investments by domestic and foreign players.

Ladies and gentlemen,

On Bursa Malaysia's part, we are continuously working towards enhancing our market's attractiveness. We are very much focused on improving our market efficiencies and access via infrastructure enhancements as well as broadening and internationalising our product offerings.

In this aspect, we have just recently launched our new equities trading platform called *Bursa Trade Securities*. This new trading platform provides greater accessibility for both local and international investors, as well as enhances trading efficiency and transparency in the market. Global exchanges are leveraging heavily on technology to offer greater speed, access and control in trading. As our marketplace progresses in tandem with global market demands, this system's new



and improved features will allow market users and investors access to more trading opportunities and information. These features, which address the demands of sophisticated investors, will put us on par with the performance and capabilities of leading exchanges in the developed markets. Earlier this year, we introduced an electronic bond trading platform that allows dealers to easily match bids with offers, negotiate deals and access historical data through a computerised network.

We have also moved one notch higher on accessibility. The Malaysian capital market is now more open than it was a decade ago. We have introduced many market liberalisation measures that encourage greater investments from foreign investors into the market. On the infrastructure front, Bursa Malaysia introduced the Direct Market Access (DMA) for the derivatives market which provides greater access to international investors and more control over their trade executions. Leveraging on the 'zero-touch electronic trading' solution, DMA enables investors to route orders directly to the exchange for immediate execution. Going forward, we will be introducing DMA for the equities market next year when the operations of our new equities trading platform has stabilised.

It has become clear that in order for exchanges to progress, they can no longer remain isolated from development and international competition. To this end, Bursa Malaysia has taken a step ahead to internationalise our offerings to suit the global investors' appetite. Our derivatives product, the US dollar denominated palm oil futures contract or FUPO for short, is a perfect example of the exchange breaking new ground in a niche area. This derivative product, which complements the more established Ringgit CPO contract, is also aimed to enhance growth by exposure to international currencies. While trading in this product is slow currently due to the volatile market, we are optimistic that interest will pick up when prices of the edible oils stabilise.

Ladies and gentlemen,

Today, Islamic finance has vast growth potential due to the many Islamic products that meet the demand of risk-averse, discerning investors. I also wish to share Bursa Malaysia's forte in the Islamic capital market in which our efforts have contributed towards the progress in this area both locally as well as internationally. As many of us are already aware, Islamic finance is a system that is based on the principle of equitable profit distribution and exhibits inherent elements of risk-management and stricter asset allocation. The recent financial crisis illustrated the need for such an



alternative system and many investors are increasingly considering Islamic investment with renewed respect. The rising interest for ethical investments has spurred Malaysia to offer Shariah-compliant investment products, making Malaysia one of the region's foremost providers in serving investors demand in this area. To this end, Bursa Malaysia has developed a competitive advantage in the area of Islamic Capital Market due to having an established legal, regulatory and Shariah framework. In the equities market, a total of 885 companies or 87% of stocks listed on Bursa Malaysia are Shariah compliant. These represent around 64% of the total market capitalisation. With that, discerning investors have more Shariah stocks to choose from when selecting their investment preference. While our market prides itself as having the world's first Islamic products such as real estate investment trusts (REITs) and Islamic exchange traded funds (ETFs), efforts are being made to enhance our Islamic capital market offerings.

At Bursa Malaysia, we aspire to be the catalyst for innovation and we are currently working on two innovations which will set another milestone in the global Islamic finance and capital market space. For a start, we will be offering a Shariah-compliant alternative to the conventional Stock Borrowing and Lending which is aimed to provide an end-to-end Islamic solution to ETF. Another upcoming project that is in the pipeline is an international spot-commodity platform, known as the Commodity Murabahah House or CMH for short. This platform will start off as a single-commodity Ringgit market and eventually evolve into a multi-commodity and multi currency market that will fulfil international market demands. Both offerings will be made available in the first half of next year.

Ladies and gentlemen,

While Bursa Malaysia is actively rolling out plans to improve our market's competitiveness, our regulatory commitment also takes high precedence. The integrity and stability of our market remains an ongoing concern, particularly in the challenging environment that that we are in right now. Rest assured that the exchange is highly committed to ensuring that the market is operated in an orderly and fair manner. Our Listing Requirements, which are of international-benchmarked standards, have been designed to be pro-business and ensures that high market integrity is achieved through compliance. Investors can be assured that there is adequate investor protection provided as the Exchange places much emphasis on transparency, accountability and corporate governance.

Bursa Malaysia remains vigilant on the impact of the global shocks and has in place the appropriate safeguard measures to manage heightened risk and volatility. The Exchange has robust financial reporting requirements coupled with competent surveillance and compliance departments to ensure that there is timely disclosure of material announcements by our listed companies. In addition, our surveillance mechanism and monitoring system are on par with international standards, and are designed to guard against market abuses such as manipulation, insider trading and illegal short selling.

We are fully cognisant of the importance of good corporate governance in maintaining our market on the radar screens of global investors. As a frontline regulator and advocator of good corporate governance, we expect our listed companies to exercise responsibility and fairness to all their stakeholders. These business owners must realise that giving a true and fair picture of the company performance is not merely a compliance requirement. It is an inherent obligation for them to have integrity and responsibility to investors and stakeholders. In short, they must practice good corporate governance to address the concerns of their stakeholders. I believe that markets which possess a reputation for good corporate governance will draw even more investor confidence, which in turn attracts more investors and issuers to the capital market in what is a positive reinforcing cycle.

Ladies and gentlemen,

Today, I've shared the initiatives that are giving Bursa Malaysia an impetus to manage the increasingly challenging marketplace which is rapidly changing the nature of investment markets. We are looking to continuously raising our game. The Exchange strives to be globally relevant in everything that we do as this will put us in a favourable position as we move into the next level of growth. More importantly, our business lies in ensuring that our regulatory functions are conducted efficiently to support the market's attractiveness and sustainable growth.

It may not be the best of times, it may not be the worst of times but it is the only time we have.

Thank you.

