

**THE MALAYSIAN CAPITAL MARKET SUMMIT 2007**  
**TUESDAY, 13 NOVEMBER 2007, 12.45 PM**  
**SPECIAL LUNCHEON KEYNOTE ADDRESS BY**  
**YABHG TUN MOHAMED DZAIDDIN HJ ABDULLAH**  
**CHAIRMAN, BURSA MALAYSIA BHD**

Assalamualaikum warahmatullahi wabarakatuh and good afternoon

Yang Berbahagia Tan Sri Dr. Jeffrey Cheah, Chairman, ASLI Foundation

Encik Mirzan Mahathir, President, ASLI

Yang Berbahagia Dato' Dr. Michael Yeoh, Chief Executive Officer, ASLI

Honoured Guests

Ladies and Gentlemen,

1. Firstly, I wish to thank ASLI for hosting this conference, and for giving me the opportunity to speak today. It is an honour and a pleasure to be able to address you today at this esteemed annual summit.
2. Since the Asian financial crisis in 1997, our Capital Market has made great strides in improving performance and adopting international governance standards. Established as we are, we need to keep ahead of the game as we are in competition for funds. Globalisation and liberalisation, have drawn us closer to even more intense competition from other nations across the globe. The international financial asset allocation and flow of funds means that we must now face off against markets much larger than ours.

3. One of the salient features of Malaysia being an emerging market is the predominance of a non-dedicated investor base that instead invested only "opportunistically." Even in the boom years of 1993-95, dedicated investors never provided a majority of the portfolio flows to emerging markets. Instead, a large part represented short-term investments undertaken by global fund managers, hedge funds, and proprietary trading desks of investment and commercial banks. Local liquidity then was also driven by retailers jumping into the band wagon.
4. However, we must acknowledge that being an emerging market, the external environment continues to pose three risks:-
  - First, the outcome of several external factors such as US economic growth and of late the sub-prime issue, interest rates, oil prices and major exchange rates will heavily influence flows and spreads;
  - Second, emerging markets being small relative to global capital markets are affected significantly in the event of re-weighting of benchmark indices;
  - Third, as noted earlier, the investor base in emerging markets at times has been quite unstable. This makes emerging markets too vulnerable to shifts in investor preferences as a result of external shocks.
5. The Malaysian market has achieved a reasonable market capitalization, turnover, liquidity, and new offerings. In the past decade since the Asian financial crisis in 1997, the KLCI has increased from 594 points in 1997 to an all time high of 1,412 points on 30 October 2007. Likewise, our market capitalisation had risen from RM375 billion to RM984 billion with increased no. of listed companies from 708 to 1,003. As a proxy to the market, Bursa Malaysia Berhad has also experienced a dramatic increase in share price since its demutualisation and subsequent listing on the Main Board from RM3.00 in March 2005 to RM14.70 as at 9 November 2007, representing an increase of almost 400%. Its market capitalisation followed suit, from RM750 million in March 2005 to RM7.7 billion as at 9 November 2007, representing an increase of more than 10 times.

6. However, sustainability of liquidity is a concern as benchmark stocks are delisted or privatised and new offerings are done offshore. Turning to market size, this issue is intimately linked to the integration and deepening of capital markets. Opening up to capital flows has benefits and costs that are well-known. And one widely recognised benefit of integration—especially for relatively small countries—is the access to a greater and better diversified pool of capital. In this respect, it is encouraging to see recent initiatives by the ASEAN Exchanges to establish alliances with each other. These initiatives, driven in part by recent improvements in information and telecommunications technologies, are likely to enhance liquidity in regional stock markets and provide companies in the region with a much larger investor base. Bursa has been a primary mover in the talks on collaboration amongst the ASEAN exchanges starting with us spearheading the launch of the ASEAN 40 index in 1995.

Ladies and Gentlemen,

7. The importance of having a well governed and regulated market cannot be over emphasised. Indeed, while the Exchange is proud of the regulatory system in Malaysia and the work we do to maintain and constantly improve on it, I would be the first to acknowledge that there is room for improvement.
8. For the past few months, much of the media coverage of business has revolved around financial scandals at some prominent, once-respected companies. You all know the list. In the beginning, these financial scandals appeared to be primarily an American phenomenon. More recently, however, it has become clear that US companies were not alone when it came to scandals. Over the past months, we have seen Malaysian companies accused of managerial fraud, accounting irregularities and other governance abuses.

9. Related to these disclosures of alleged gross corporate malfeasance, the net effect has been to undermine the faith investors have in the integrity of the capital market. When investors buy shares in a company, they must have faith that the company's financial statements have been prepared using high-quality accounting standards designed to accurately reflect the company's financial condition. If investors don't have this faith, they will insist on a risk premium for their investment. The cost of capital will increase for these companies, with the obviously negative impact on investment decisions.
10. Different countries have responded differently to such problems. In this regard, I must commend the Securities Commission in acting swiftly in bringing to book the perpetrators and making the necessary changes to the code of Corporate Governance. As a regulator, Bursa supports a full complement of rules; self-policing and self-compliance. In this respect, Bursa is also currently assessing options in guiding and assisting companies to move from a “conformance to a performance” culture in respect of corporate governance.

Ladies and Gentlemen,

11. Today, technology is changing the world capital markets. Technological advances have provided new opportunities for companies and investors to access the capital markets. Investors now trade faster and cheaper and companies are now able to raise financing through the internet and mount online Investor Relations programmes.
12. At this juncture, it is interesting to note the debut of the Chinese e-commerce firm Alibaba.com on the Hong Kong Exchange on 6<sup>th</sup> November raising USD1.49billion and is currently valued at USD25billion. Mind boggling, if you were to ask me - reminiscing the now famous quote from Mr Greenspan “irrational exuberance”.

13. As for Bursa, we are also not far off on the technology front. We have recently crossed over to a new trading platform for the derivatives market and on track to cross over to the same platform for the equities market. The platform is similar to the one used by NYSE-Euronext coming from the same vendor. Moving forward, with the new trading platform, the Exchange will be implementing Direct Market Access (DMA) for both the equity and derivatives market which will provide investors speed of execution and facilitate differing trading strategies. In view of similarities of trading platform, trading links may also be considered with like-minded exchanges.

Ladies and Gentlemen,

14. The Islamic capital market is increasingly commanding global attention as a vehicle for adding quality options to financial products and services available in markets today. This recognition has encouraged the steady growth of new products as well as efforts at development and promotion.
15. Malaysia has emerged as a significant area of growth in this sector. Since the first issue of Islamic bonds in 1990 by Shell, many new Shariah compliant instruments have been developed and introduced, resulting in greater depth and breadth of the Islamic capital market.
16. More than two-thirds of stocks listed on Bursa Malaysia are recognised as Shariah compliant by the SC's Shariah Advisory Council (SAC). This has paved the way for Bursa Malaysia to launch its Shariah Index in 1999 now being replaced by the FTSE Bursa EMAS Shariah Index and the FTSE Bursa HIJRAH Shariah Index to track the performance of Shariah compliant stocks.

17. My view is that to enable the Islamic capital market to develop further and to tap the tremendous opportunities world-wide, we must move beyond trying to merely cater to the investment needs of mid-east or Muslim investors to introducing products that are acceptable to all in the global financial arena. Hence our efforts must not be focussed merely on ensuring Shariah compliance but also in ensuring international compatibility and acceptability. At the end of the day, the pursuit of value is a common denominator amongst all investors and therefore the value proposition that Islamic capital market products and services can offer will make the difference.

Ladies and Gentlemen,

18. Retail assets represent the largest portion of Malaysia's liquid assets at 45%, followed by pension and public funds at 40% with EPF and Khazanah Nasional representing an estimated 85% of the total pension and public funds.
19. So as a natural focus, Bursa has initiated strategies to reach out to retail investors. Part of the strategy includes the launching of an online stock game called "Bursa Pursuit" and the nationwide investor education programme known as "Market Chat" with our partners. Taking into account the high risk aversion of retail investors, we are continually assessing retailers specific needs and have and will be structuring retail centric products like the Exchange Traded Fund.

Ladies and Gentlemen,

20. Bursa remains committed to maintaining our relevance as an investment destination for foreign and domestic alike. With all these initiatives in place and to complement Bursa's efforts, listed issuers should also play their role to meet investors' and market expectations. They need to market themselves. Even on this aspect, Bursa Malaysia, in assisting companies to showcase themselves directly to investors, have launched the Malaysian Investor Relations Association (MIRA) in June 07 and extended the CMDF-Bursa Research Scheme in August 07.

21. However, there are of course, many important issues looming on the international landscape, but the fundamental issue for everyone involved in financial markets today, regardless of company or country, must be to maintain high standards - legal, regulatory, and ethical - that breed trust and confidence. This becomes increasingly important at a time when money managers can move capital around the globe with a few clicks on a computer. Capital will flee markets that are unstable or unpredictable - whether that's a function of lax corporate governance, ineffective accounting standards, a lack of transparency or a weak enforcement regime. Investors must see for themselves that the regulators and companies are living up to their obligations.

Thank you.