



# DEEPENING THE CAPITAL MARKET

Long-term planning and a solid regulatory framework propelled Malaysia's capital market into a commanding position, and expectations are running high, says **Errol Oh**

**T**he Securities Commission (SC) had plenty to be thankful for when celebrating its 20th anniversary last year. The Malaysian capital market today is barely recognisable from the one in existence on 1 March 1993, the day the regulator was established. Back then, the market had a narrow base dominated by equities and government securities. Its deepening and broadening in this millennium illustrates just how much things have changed.

In 2000, when the region was still reeling from the 1997-98 Asian financial crisis, Malaysia's capital market was valued at US\$240bn. Last October, it was worth US\$816bn, two-and-a-half times the size of the country's economy.

Between 2000 and 2010, the stock market capitalisation and the bond market both expanded annually by about 11%. The investment management industry and the Islamic capital market also enjoyed double-digit growth in that period.

When delivering the keynote address at the World Capital Markets Symposium in Kuala Lumpur last October, Prime Minister Datuk Seri Najib Tun Razak rattled off some noteworthy achievements of the Malaysian capital market.

The bond market, for example, is Asia's third-largest, relative to GDP, plus Malaysia leads the sukuk market with a share of almost 70% of the global total. The local unit trust industry is the biggest in the ASEAN region, and the world's number-one Islamic unit trust industry is right here in Malaysia.

But there is more at stake than just bragging rights. The capital market is a crucial component of the economy, putting savings and investments in the hands of those in need of capital. This capital is used to generate economic output, thus supporting development and creating wealth. A humming capital market can elevate a country's socio-economic conditions, as it has done in Malaysia.

'As Malaysia's experience suggests, when correctly harnessed and channelled, markets can prove to be transformative: not just for the economy, but for society too,' said Najib at the October symposium. 'By unlocking opportunity and giving citizens a greater stake in their

nation's success, they can strengthen both individual prospects and the bonds of community.'

Several factors have combined to propel the Malaysian capital market to where it is now. BDO Malaysia managing partner Datuk Gan Ah Tee, who is also regional senior partner of BDO ASEAN, says these include the rise in income, savings and private-sector demand.

## Strong regulatory framework

It has also helped that the Malaysian capital market is underpinned by a developed regulatory framework, infrastructure and ecosystem, made possible by government support and long-term planning.

Formulated in the wake of the Asian financial crisis and launched in 2001, the SC's Capital Market Masterplan (CMP1) mapped out the market's robust growth up to 2010. By the end of that year, 95% of the CMP1's 152 recommendations had been implemented.

A sequel, the Capital Market Masterplan 2 (CMP2), was published in April 2011 – and expectations run high. According to the CMP2, the SC estimates that the capital market will swell from US\$667bn in 2010 to US\$1.5 trillion by 2020. And that is a baseline forecast.

The SC believes the growth can be stronger still, given the structural reforms and high-impact investment projects under the New Economic Model and Economic Transformation Programme (ETP), the push for greater internationalisation and liberalisation of Malaysia's financial sector, and the likelihood of certain segments of the market reaching critical mass. In such a scenario, it reckons the capital market could expand to US\$1.9 trillion by 2020.

However, these are big numbers. Is the SC being overly optimistic? Gan does not think so, and he looks forward to the capital market hitting at least the baseline forecast by 2020. 'We are of the view that the Malaysian capital market has further significant growth prospects. This would be driven by the expectation on expanding economic growth as the



## ‘ACCOUNTING AND FINANCE KNOWLEDGE HELPS IN THE DEVELOPMENT OF THE CAPITAL MARKET... IT HELPS YOU GET THE NUMBERS RIGHT’

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*Kuala Lumpur's stock exchange has little time to rest: the capital market is key to improving Malaysia's socio-economic climate*

country achieves fully developed nation status by 2020 and the consequent financing needs of Malaysian corporations to fund their business activities and expansion plans,’ he says. ‘We also believe that the investment projects identified under the ETP will accelerate economic growth momentum with a significant upside for the market long-term.’

Naturally, accountants can contribute. Says Malaysian Institute of Accountants president Johan Idris, ‘The MIA strongly believes the growth prospects of the Malaysian capital market will remain intact as long as we have a strong and facilitative regulatory framework supported by high-quality and reliable financial information, which translates into a high degree of confidence.’

PwC Malaysia financial services leader Soo Hoo Khoon Yean agrees that numbers are important to capital market participants. ‘Investors make decisions based on financial statements and key performance indicators reported by the investee companies. Accountants are there to ensure that those numbers are credible,’ he points out.

### A greater role

However, Audit Oversight Board executive chairman Nik Mohamed Hasyudeen Yusoff notes that accounting in the capital market goes well beyond financial reporting and auditing. Accountants can play an active role in shaping and supporting business strategies, such as in designing financing schemes that fit their organisations’ needs and circumstances, he says. They can also be instrumental in ensuring their companies have good governance and financial discipline.

In other words, accountants are not merely passive gatekeepers in the capital market. ‘It’s not just about auditing and checking other people’s work. It’s also about formulating and driving strategy, shaping the financial profile of the company and creating value, which will then be shared with the investors either through dividends or the enhanced valuation of the company’s securities,’ adds Nik Hasyudeen.

PwC Malaysia’s Soo Hoo observes that many corporate finance people at major investment banks are accountants by training. ‘Accounting and finance knowledge helps in the development of the capital market in the sense that it helps you get the numbers right,’ he explains. ‘If you are an issuer of equities or bonds to raise funds, you not only need to get the pricing right, you first need to figure out the right mode of financing in terms of strategy and cost. The experience and skills of a qualified accountant will enable you to do that.’

Gan of BDO Malaysia points out that there are many accountants working for the bodies that supervise capital market participants. This is another example of the use of accounting skills to uphold the public interest.

Yet accountants, like any other player in the capital market, need to know the elements that can hinder the market’s growth and how they can be overcome. Many of these challenges stem from the fact that the global competition for capital is intense, more so because technology and deregulation have made it easy for funds to flow in and out of a market. To get ahead in this game, the Malaysian capital market has to be a compellingly attractive destination for investments. That, of course, is easier said than done. It takes a lot to balance market-friendly features (such as speed, innovation and flexibility) with the need to protect investors.

Then there is also the fact that the investment world is constantly evolving. For one thing, the requirements of »

investors are becoming more complex and thus they seek diversity. 'The investment decisions today have become very granular. As a result, for a capital market to enjoy volumes that can lead to the multiplier effect, its product offering must also be granular,' says Soo Hoo of PwC Malaysia.

### Carving a niche

At the same time, the diverse needs of investors present an opportunity for a market to carve out a niche for itself. The trick is to find the right niche, adds Soo Hoo.

Malaysia, for example, has long been regarded as having built-in advantages as a market for commodities and Islamic capital market products. However, these can only go so far. The niche has to be properly enhanced and harnessed, says Soo Hoo, and the players have to work together to offer an entire value chain that can satisfy investors' wide-ranging demands.

The MIA believes accountants can help the capital market to deal with the challenge of improving transparency, governance and accountability. But to do that, they must keep abreast of changes in the profession and in business, and remain ethical. Idris says, 'The profile of the profession is constantly changing and shifting, and we are under close scrutiny, given our roles as financial watchdogs and providers of assurance. We can only remain relevant and strong and retain the public trust if we behave impeccably at all times.' ■

**Errol Oh is executive editor of The Star**

## BUILDING CONFIDENCE

**Few things better underscore the importance of accountants in the capital market than legislative and rule changes designed to safeguard and boost the quality and reliability of financial information provided to investors.**

As Malaysian Institute of Accountants president Johan Idris points out, 'Accountancy is about building confidence, and confidence is among the key ingredients in building our capital market.'

There have been several such accounting-related amendments to the regulatory framework for the Malaysian capital market in recent years.

An example is the insertion of Section 320A in the Capital Markets and Services Act in April 2010. This empowers the Securities Commission to go after directors and officers of listed companies who coerce accounts preparers or auditors into producing false or misleading financial statements.

It was also in April 2010 that the Securities Commission Act was amended to pave the way for the setting up of the Audit Oversight Board.

The board's functions include: promoting and developing an effective and robust audit oversight framework in Malaysia; promoting confidence in the quality and reliability of audited financial statements in Malaysia; and regulating auditors of public-interest entities.

As a frontline regulator, exchange operator Bursa Malaysia too has been giving more prominence to the role of accountants in the equity market. This is primarily done via changes in the listing requirements.

Among the exchange rules that affect accountants are those on audit committees, chief financial officers and corporate results.

The latest move, announced late last December, was the shortening of the timeframe for the issuance of annual reports.

### ▼ STRONG CREDENTIALS

*Prime Minister Datuk Seri Najib Tun Razak announced Malaysia has nearly 70% of the world's sukuk market*

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