

**AN EVALUATION OF
THE FINANCIAL SECTOR MASTER PLAN &
THE CAPITAL MARKET MASTER PLAN**

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## Abstract

The financial sector is poised to enter a new era of institutional development and maturity with the unveiling of both the *Financial Sector Master Plan* (FSMP) by Bank Negara Malaysia and the *Capital Market Master Plan* (CMP) by the Securities Commission in 2001.

FSMP is a blueprint to chart the way forward for the country's banking, insurance and other financial sectors for the next decade from year 2001 to 2010. It aims to develop a more resilient, competitive and dynamic financial system that will be able to meet the challenges of further liberalization and globalization. CMP is a financial development blueprint that complements the FSMP. It is a comprehensive plan that will guide the strategic positioning and future direction of the Malaysian capital market in the period 2001-2010. The CMP is intended to ensure that the capital market is well positioned to play its role in supporting national growth needs, as well as in meeting the challenges of increasing globalization.

The unveiling of both master plans will provide the broad direction for financial institutions in their efforts to achieve a higher level of competitiveness that is on par with international standards. They are also aimed at increasing the efficiency of financial institutions in the country as a conduit for the mobilization and allocation of funds.

The FSMP's main focus is further development of the supervisory framework, further consolidation of the industry and promotion of Islamic banking and the venture capital industry. In addition, it also contains recommendations on the improvement of consumer protection and the intensification of R & D efforts. As for CMP, its strength lies in the presentation of the recommendations and the implementation timeframe as well as the sequencing of recommendations. The CMP concentrates on further strengthening of the regulatory framework for the capital market as well as enhancement of investor protection.

There are several salient weaknesses in both plans. In FSMP, the descriptions for most of the recommendations are too brief, lacking information on the strategies that would be useful for the achievements of the objectives of the master plan. Furthermore, the concern about data security, the enforcement of ethical business practices and the overlap problems in rules implementation are amongst the issues that are not adequately presented in the blueprint. With regard to CMP, the time frame for certain recommendations are relatively tight, and the R & D efforts in relation to product innovation are insufficient. Besides that, both master plans are weak in presenting the linkages between BNM and SC for the implementation of the master plans.

In view of the interconnection between the FSMP and CMP, both BNM and SC should further co-operate in providing training programmes, developing an integrated payment system, and sharing resources in R & D activities. In addition, the regulators from both BNM and SC should also study together the possibility of consolidating certain laws and regulations, and solving problems raised from the overlapping of the functions of different authorities.

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## **Acronyms and Abbreviations**

|           |                                                         |
|-----------|---------------------------------------------------------|
| AFAS      | ASEAN Framework Agreement on Services                   |
| ASX       | Australian Stock Exchange Ltd                           |
| ATM       | Automated Teller Machine                                |
| BA        | Bankers Acceptance                                      |
| BAFIA     | Banking and Financial Institutions Act 1989             |
| BELFOX    | Belgian Futures and Options Exchange                    |
| BMB       | Banking Mediation Bureau                                |
| BNM       | Bank Negara Malaysia                                    |
| CA        | Companies Act 1965                                      |
| CBOT      | Chicago Board of Trade                                  |
| CDS       | Central Depository System                               |
| CGC       | Credit Guarantee Corporation                            |
| CME       | Chicago Mercantile Exchange                             |
| CMP       | Capital Market Master Plan                              |
| COMDEX    | Commodity and Monetary Exchange of Malaysia             |
| CPE       | Continuing professional education                       |
| CPO       | Crude palm oil                                          |
| Danaharta | Pengurusan Danaharta Nasional Berhad                    |
| Danamodal | Danamodal Nasional Berhad                               |
| DBR       | Disclosure-based regulation                             |
| DFI       | Development Financial Institutions                      |
| DTCs      | Deposit-taking co-operatives                            |
| ECN       | Electronic communication network                        |
| EPF       | Employees Provident Fund                                |
| ETF       | Exchange Traded Fund                                    |
| FD        | Fixed Deposits                                          |
| FIA       | Futures Industry Act 1993                               |
| FIC       | Foreign Investment Committee                            |
| FKLI      | KLSE Composite Index Futures                            |
| FLR       | Front-line regulator                                    |
| FSMP      | Financial Sector Master Plan                            |
| GATS      | General Agreement on Trade in Services                  |
| GDP       | Gross domestic product                                  |
| GNP       | Gross national product                                  |
| HKFE      | Hong Kong Futures Exchange                              |
| IBBM      | Institute of Bankers Malaysia                           |
| IBIs      | Islamic Banking Institutions                            |
| IBS       | Islamic Banking Scheme                                  |
| ICT       | Information and Communications Technology               |
| IOFC      | International Offshore Financial Centre                 |
| IPO       | Initial Public Offering                                 |
| IT        | Information Technology                                  |
| KATS      | KLOFFE Automated Trading System                         |
| KLCE      | Kuala Lumpur Commodity Exchange Bhd                     |
| KLCI      | KLSE Composite Index                                    |
| KLIA      | Kuala Lumpur International Airport                      |
| KLIBOR    | Kuala Lumpur Interbank Offered Rate                     |
| KLOFFE    | Kuala Lumpur Options and Financial Futures Exchange Bhd |



|        |                                                                      |
|--------|----------------------------------------------------------------------|
| KLSE   | Kuala Lumpur Stock Exchange                                          |
| KULBER | KLSE Bernama Real-Time Information Services                          |
| LFX    | Labuan International Financial Exchange                              |
| LIFFE  | London International Financial Futures and Options Exchange          |
| LOFSA  | Labuan Offshore Financial Services Authority                         |
| MCD    | Malaysian Central Depository Sdn Bhd                                 |
| MDCH   | Malaysian Derivatives Clearing House Bhd                             |
| MEPS   | Malaysian Electronic Payment System                                  |
| MESDAQ | Malaysian Exchange of Securities Dealing and Automated Quotation Bhd |
| MGS    | Malaysian government securities                                      |
| MITI   | Ministry of International Trade and Industry                         |
| MME    | Malaysian Monetary Exchange                                          |
| MORE!  | MESDAQ Order Routing and Execution System                            |
| MSC    | Multimedia Super Corridor                                            |
| Nasdaq | National Association of Securities Dealers Automated Quotation       |
| NCDs   | Negotiable Certificates of Deposit                                   |
| NIDs   | Negotiable Instruments of Deposit                                    |
| NYSE   | New York Stock Exchange                                              |
| OPP3   | Third Outline Perspective Plan                                       |
| OTC    | Over-the-counter                                                     |
| PDS    | Private debt securities                                              |
| PMPC   | Payment Multipurpose Card                                            |
| R & D  | Research and Development                                             |
| RIIAM  | Research Institute of Investment Analysts Malaysia                   |
| ROC    | Registrar of Companies                                               |
| RWCR   | Risk-weighted Capital Ratio                                          |
| SAC    | Syariah Advisory Council                                             |
| SC     | Securities Commission                                                |
| SCA    | Securities Commission Act 1993                                       |
| SCANS  | Securities Clearing Automated Network Services Sdn Bhd               |
| SCORE  | System on Computerised Order Routing and Execution                   |
| SEHK   | Stock Exchange of Hong Kong                                          |
| SES    | Stock Exchange of Singapore                                          |
| SIA    | Securities Industry Act 1983                                         |
| SIDC   | Securities Industry Development Centre                               |
| SIMEX  | Singapore International Monetary Exchange                            |
| SME    | Small and Medium-sized Enterprises                                   |
| SMI    | Small and Medium Industries                                          |
| SPEEDS | Sistem Pemindahan Elektronik untuk Dana dan Sekuriti                 |
| SRO    | Self-regulatory organisation                                         |
| STP    | Straight-through processing                                          |
| TFP    | Total Factor Productivity                                            |
| TSE    | Tokyo Stock Exchange                                                 |
| UB     | Universal Broker                                                     |
| US     | United States                                                        |
| VC     | Venture Capital                                                      |
| VCCs   | Venture Capital Companies                                            |
| WDM    | Wavelength Division Multiplexing                                     |