

FSMP :- Summary of Recommendations

Chapter 3: Banking Sector

- 3.1: Develop industry-wide benchmarks to drive performance improvement in domestic banking institutions
- 3.2: Improve awareness of best practices and conduct focused training
- 3.3: Enhance credit skills and monitor the requirement for accreditation of credit officers and managers
- 3.4: Remove restrictions on salaries and staff mobility in banking industry
- 3.5: Uplift restriction on employment of expatriates
- 3.6: Set up board committees to further improve corporate governance
- 3.7: Allow group rationalisation and facilitate the operation of one-stop financial centre
- 3.8: Encourage strategic alliances
- 3.9: Streamline the regulation of discount houses and merchant banks to level the playing field
- 3.10: Encourage mergers between merchant banks and stockbroking companies or discount houses of the same group to create full-fledged investment banks
- 3.11: Encourage ownership of banking institutions by institutional investors
- 3.12: Encourage outsourcing of non-core functions
- 3.13: Require management of banking institutions to give greater attention to the development of ICT
- 3.14: Encourage the development of new delivery channels
- 3.15: Adopt 'what is not prohibited is allowed' regulatory philosophy and phase out product pre-approval requirement
- 3.15.1: Replace product pre-approval requirements with a simple new product notification process
- 3.15.2: Outline guidelines for all applications for regulatory exemptions
- 3.16: Deregulate pricing and rules of association on rates, fees and charges gradually
- 3.17: Mandate all banking institutions to be rated
- 3.18: Encourage competition and participation of banking institutions in areas currently served by fringe institutions
- 3.19: Facilitate the development of a conducive tax regime
- 3.20: Merge the associations of banks, merchant banks and finance companies into a single association
- 3.21: Continue implementing risk-based supervision with more focused supervisory attention for weak institutions
- 3.22: Refine calculation of risk weightings for the purpose of capital adequacy calculations
- 3.23: Implement a system of incremental enforcement action
- 3.24: Implement a transparent and clearly structured early warning system and set of prompt corrective measures for weak banking institutions
- 3.25: Enhance surveillance of the financial sector through the use of modern technology
- 3.26: Develop comprehensive framework for consolidated supervision of financial conglomerates
- 3.27: Increase efficiency and competition in the payments system
- 3.28: Allow market forces to shape developments in the payments system while BNM assumes the role of regulator
- 3.29: Allow incumbent foreign banks to set up shared ATM network
- 3.30: Allow use of electronic communication networks and electronic trading platform

- 3.31: Introduce an expanded credit guarantee scheme
- 3.32: Require provision of advisory services on financial planning and management to SMIs and small borrowers
- 3.33: Allow banking institutions to rationalise their branch network and relocate branches, subject to certain conditions
- 3.34: Initiate an active and structured consumer education programme
- 3.35: Increase product-specific and institutional transparency and move towards full disclosure
- 3.36: Encourage consumers to pursue formal administrative and legal redress
- 3.37: Expand the operations of Banking Mediation Bureau to cover full range of retail banking-related consumer complaints
- 3.38: Implement anti-trust regulation
- 3.39: Establish a deposit insurance fund

Chapter 4: Insurance Sector

- 4.1: Remove restrictions on outsourcing
- 4.2: Allow all players in the market to operate via the internet
- 4.3: Promote incentives for the growth of bancassurance
- 4.4: Remove the 'file-and-use' system for life insurance products in the long term
- 4.5: Open up the pension industry to insurers
- 4.6: Uplift restrictions on employment of expatriates
- 4.7: Remove restrictions on opening branches
- 4.8: Allow insurers to distribute other personal financial service products
- 4.9: Introduce independent financial advisers
- 4.10: Introduce reinsurance quota regulations
- 4.11: Remove voluntary cessions to Malaysian National Reinsurance Berhad
- 4.12: Allow qualified players to sell takaful products
- 4.13: Remove caps on operating expenses
- 4.14: Encourage commission disclosure
- 4.15: Deregulate pricing of general insurance products
- 4.16: Increase the statutory minimum paid-up capital of insurers
- 4.17: Strengthen 'fit and proper' regulations for board members and senior management
- 4.18: Encourage the introduction of performance incentives and evaluation processes
- 4.19: Raise the entry requirements for the agency force
- 4.20: Introduce additional compulsory exams as part of continuing education programmes for agents
- 4.21: Further strengthen performance-based supervision
- 4.22: Ensure effective enforcement of regulations
- 4.23: Establish prudential risk management standards
- 4.24: Remove investment restrictions
- 4.25: Expand the role of the existing ombudsman
- 4.26: Introduce 'best-advice' regulations
- 4.27: Strengthen regulations on unfair trade practices
- 4.28: Allow new insurance licences for innovative players
- 4.29: Allow financial and non-financial institutions to buy direct insurers
- 4.30: Open up the reinsurance industry fully to foreign competition
- 4.31: Increase caps on foreign equity

Chapter 5: Islamic Banking and Takaful

- 5.1: Introduce a benchmarking programme
- 5.2: Enhance knowledge and expertise
- 5.3: Build strong management teams
- 5.4: Grant incentives to structure Islamic private debt securities
- 5.5: Increase the number of Islamic banks to stimulate competition
- 5.6: Increase the number of takaful operators
- 5.7: Deepen the Islamic financial market
- 5.8: Strengthen the regulatory framework for Islamic banking
- 5.9: Improve the regulatory framework for takaful
- 5.10: Establish an effective legal structure
- 5.11: Create a favourable tax regime

Chapter 6: Development Financial Institutions

- 6.1: Define clearly the strategic focus and role of the DFIs
- 6.2: Enhance institutional capacities and operational structure
- 6.3: Enhance performance measurement
- 6.4: Introduce a systematic framework for sourcing funds
- 6.5: Continue Government's support to the DFIs
- 6.6: Strengthen corporate governance
- 6.7: Establish a legislative framework to provide for regulation and supervision of DFIs
- 6.8: Establish a single Regulatory and Supervisory Authority to strengthen the supervision of DFIs

Chapter 7: Alternative Modes of Financing

- 7.1: Establish a 'one-stop' centre for VC
- 7.2: Establish a RM500 million VC Fund
- 7.3: Introduce further tax incentives for the VC industry
- 7.4: Liberalise the MESDAQ listing requirements
- 7.5: Establish Islamic VC funds
- 7.6: Increase the sources of financing to the VC industry
- 7.7: Enhance the promotion of VC investment opportunities in Malaysia
- 7.8: Provide training to VC professionals
- 7.9: Increase the awareness of Malaysians regarding the roles and significance of business angels
- 7.10: Establish more business angel clubs and networks
- 7.11: Establish more matching services
- 7.12: Establish technology appraisal centres in promoted high technology sectors
- 7.13: Establish a one-stop agriculture research and development centre as well as a comprehensive and integrated information database
- 7.14: Develop structured and systematic training programme for borrowers
- 7.15: Establish a risk-distribution mechanism that will reduce the risks to the financial institutions and at the same time, reduce borrowing costs through a guarantee and insurance protection scheme
 - 7.15.1 Establish an agency to provide guarantees
 - 7.15.2 Diversify insurance protection schemes
- 7.16: Provide subsidies to the agriculture industry
- 7.17: Grant tax exemptions

Chapter 8: Labuan International Offshore Financial Centre

- 8.1: Develop an active International Offshore Financial Centre for Malaysia
- 8.2: Review existing rules and regulations to facilitate expansion in the scope of core businesses
- 8.3: Adopt a consultative and market driven approach to create a conducive tax and business environment
- 8.4: Benchmark against the best to maintain the low-cost operating environment
- 8.5: Establish a well-balanced regulatory policy and supervisory framework
- 8.6: Strengthen Islamic banking and finance as well as Islamic insurance (takaful)
- 8.7: Enhance the Labuan International Financial Exchange (LFX)
- 8.8: Enhance the e-commerce gateway (ECG)
- 8.9: Maximise potentials of Labuan IOFC by developing other complementing economic measures

Appendix B : CMP – Sequencing of Recommendations

SEQUENCING OF RECOMMENDATIONS

The phasing for the implementation of recommendations in the various segments of the market is set out below.

Market Institutions

No	Phase 1	Phase 2	Phase 3
1	A single Malaysian exchange should be established through the consolidation of all existing exchanges by 2002		
2	MESDAQ should be merged with KLSE as part of the exchange consolidation process		
3	The Malaysian exchange should demutualise and list on the stock market by 2003		
4	The Malaysian exchange should implement a programme to enhance its value recognition both domestically and internationally		
5	The Malaysian exchange should pursue appropriate strategic alliances internationally	A common trading platform across all exchange-traded products should be established following exchange consolidation	
6			
7			
8	A single clearance and settlement institution for all exchange traded products should be created by 2002	An integrated clearance and settlement system for all exchange-traded products should be established	The money settlement system should be directly linked with the capital market trading and clearing systems
9			
10	The settlement cycle should be shortened to T+3 in line with international best practice		
11	A global depository account for each investor will be established in the central depository		
12	The SCANS clearing fee will be reduced from 0.05% to 0.04% with effect from 1 July 2001, subject to a maximum of RM200 per contract		
13	The SCORE fee will be reduced in two stages to 0.005% and 0.0025% with effect from 1 September 2000 and 1 July 2001 respectively. Subsequently, SCORE fees will be reviewed further		

No	Phase 1	Phase 2	Phase 3
14	The SC levy will be reduced to 0.015% from the present 0.02% with effect from 1 July 2001		
15	Stamp duty should be capped at RM200 per contract for all trades on the KLSF and be further considered for eventual removal		
16	Administrative procedures and rule structures in relation to portfolio investments should be streamlined in order to reduce operational costs to investors		

Equity Market

No	Phase 1	Phase 2	Phase 3
17	A full disclosure based framework for the offer and issuance of equity securities will be implemented in 2001		
18	The involvement of multiple approving authorities in the fund raising process should be further rationalised		
19	A shelf registration scheme for the issuance of equity securities will be introduced		
20	The market for the provision of corporate advisory services will be further deregulated		
21	Technological solutions that enhance the efficiency of the fund raising process will be identified and implemented		
22	Breadth of listings in the Malaysian equity market will be gradually widened to include listings of foreign companies		
23	The introduction of Exchange Traded Funds will be allowed		
24	Comprehensive measures to enhance MESDAQ's role as a fund raising centre for high-growth companies will be implemented		
25	The listing of technology incubators will be allowed in 2001		
26	The promotion and development of the venture capital industry should be centrally co-ordinated		
27	Venture capital companies will be granted exempt dealer status under the SIA		
28	The establishment of venture capital trusts that can invest up to 100% in unquoted companies will be allowed		
29	The SC will undertake a review of the tax framework for the venture capital industry in collaboration with the tax authorities, industry participants and the central co-ordinating agency for the industry		
30	Joint investment programmes between the government and private sector venture capitalists should be increased to boost private sector participation in disbursing government funds for seed and start-up capital		
31	The participation of local institutional investors in venture capital funds should be promoted		
32	Greater foreign participation in the venture capital industry should be allowed		

Bond Market

No	Phase 1	Phase 2	Phase 3
33	A full disclosure based framework for the issuance of corporate bonds will be implemented	The mandatory requirement for credit ratings on corporate bond issues will be removed	
34	A shelf registration scheme for the issuance of corporate bonds will be introduced		
35			
36	A framework for the issuance of asset backed securities will be introduced		
37	The existing taxation framework for Special Purpose Vehicles should be clarified to reflect economic substance, and the stamp duty and Real Property Gains Tax on transactions relating to the issuance of asset backed securities should be removed to encourage asset securitisation		
38	Liquidity in benchmark issues should be developed and established		
39	A programme to issue MGS should be encouraged and promoted with a view to establishing them as the immediate benchmark securities for the Malaysian bond market		
40	Regulated short selling of MGS and corporate bonds should be allowed		
41	Non-financial institutions should be allowed to conduct the entire scope of repo activities		
42	Markets in MGS futures and options should be established		
43	EPF's investment requirements should be eased to free up its "captive demand" for MGS		
44	Access to trading on the over the counter market should be extended to a wider range of participants		
45			
46			
47			
48	The participation of retail investors in the corporate bond market will be encouraged through the promotion of the establishment of bond funds		
49	The tax framework should be reviewed to encourage issuance and investment in debt securities		

Derivatives Market

No	Phase 1	Phase 2	Phase 3
50	Restrictions on the participation of unit trust funds and closed-end funds in exchange-traded derivatives will be deregulated		
51	Derivatives funds will be allowed to be established and offered to investors in 2001		
52	Restrictions on the participation of local institutions, including EPF and insurance companies, in exchange traded derivatives should be deregulated		
53	KLOFFE and COMMEEX should actively pursue the introduction of more derivative products		
54	The process for the introduction of new domestic exchange traded derivative products will be streamlined		
55	Local futures market intermediaries will be allowed to trade approved international financial derivative products by end 2001		
56	A new category of International Members with full derivatives trading and broking rights will be allowed by 2002		
57	Equity ownership requirements of futures broking firms will be liberalised to allow foreign majority ownership by 2003		
58	Foreign Direct Clearing Memberships will be allowed to be established within MDCH by 2002		
59	The SC will introduce guidelines for Introducing Brokers by end-2001		
60	The futures broking commission rate will be fully negotiable by 1 January 2002		
61	The futures clearing and exchange trading fees will be reviewed by 1 January 2002		
62	The commission sharing structure between futures brokers and their representatives will be fully negotiable in 2002		
63	Recognised foreign exchanges will be allowed to place remote access terminals with Malaysian futures brokers in return for reciprocal remote access arrangements by 2002		
64	Regulated short selling and securities borrowing and lending activities should be reintroduced by 2002		

Islamic Capital Market

No	Phase 1	Phase 2	Phase 3
65	Efforts to introduce more competitive and innovative Islamic financial products and services will be actively pursued		
66	Efforts to introduce and promote a wider range of Islamic collective investment schemes will be facilitated		
67	Investment restrictions for the Takaful industry should be further liberalised to facilitate greater mobilisation of Takaful funds into the Islamic capital market		
68	Efforts to mobilise untapped Islamic assets through securitisation should be pursued		
69	Efforts to increase the pool of Islamic capital market expertise through training and education will be enhanced		
70	A single Syariah Advisory Council should be established for the Islamic financial sector		
71	A facilitative tax and legal framework should be established for the Islamic capital market		
72	Efforts to develop an appropriate financial reporting framework for the Islamic capital market in collaboration with MASB will be pursued		
73	Increased efforts to enhance the awareness of Malaysia's Islamic capital market at the domestic and international levels will be pursued		
74	Strategic alliances between Malaysia and other Islamic capital markets should be established		
75	The government and government related entities should consider issuing Islamic debt securities in the global market		
76	The listing of Malaysian Islamic equity funds in international markets should be pursued		
77	Incentives to encourage the entry of foreign intermediaries and professionals with expertise in Islamic capital market related businesses should be provided		

Stockbroking Industry

No	Phase 1	Phase 2	Phase 3
78	Efforts to promote consolidation of the stockbroking industry will be pursued		
79	A new category of full-service intermediaries to be known as Universal Brokers will be introduced		
80	Branching restrictions on stockbroking companies will be deregulated		
81	The scope of capital market services that may be offered by stockbroking companies will be widened		
82	Stockbroking companies and their representatives will be allowed to offer a range of services under a single license		

No	Phase 1	Phase 2	Phase 3
83	Stockbroking commission rates will be liberalised in two stages: Stage 1 with effect from 1 September 2000, commission rates for all trades above RM100,000 will be fully negotiable while trades with contract values of RM100,000 and below are subject to a fixed rate of 0.75% Stage 2 with effect from 1 July 2001, commission rates will be fully negotiable for all trades, subject to a cap of 0.70%		
84	Commission sharing arrangements between remisiers and stockbroking companies will be fully negotiable in 2002		
85	Foreign equity participation in domestic stockbroking companies will be liberalised in stages beginning from 2003		
86	Measures to facilitate online trading will be introduced		
87	Efforts to develop a standardised and centralised back office system for the stockbroking industry will be facilitated		
88	Efforts to further promote the use of information technology and e-commerce by intermediaries will be facilitated		
89	The scope of activities carried out by remisiers should be expanded to a wider range of value added capital market services, including financial planning		

Investment Management

No	Phase 1	Phase 2	Phase 3
90	A more market-based approach to regulation will be applied to the investment management industry	A uniform regulatory framework streamlining the licensing rules for the investment management industry will be introduced	
91	The process for introducing new investment management products will be streamlined		
92			
93	The management of investment funds should be further deregulated to allow for greater international portfolio diversification		
94	The SC will recognise industry self-regulation within the investment management industry, subject to appropriate criteria and under strong supervision, to complement the SC's regulatory function		
95	EPF's investment guidelines should be liberalised to allow the adoption of the "prudent person" approach		

No	Phase 1	Phase 2	Phase 3
96	EPF should further diversify the management of its funds by placing out a greater portion with external fund managers		
97	The eligibility rules pertaining to the EPF's Members' Investment Scheme should be lowered over the longer term		
98	Measures to facilitate the development of a private pensions industry will be actively pursued		
99	The further outsourcing of the management of funds by insurance companies should be promoted		
100	Restrictions on the management of funds by Foreign Fund Management Companies will be liberalised		
101	Foreign ownership requirements will be liberalised to allow foreign majority ownership of unit trust management companies from 2003		
102	The SC will examine the viability of implementing an investor compensation programme		
103	Further tax incentives to encourage investments in collective investment schemes will be examined		
104	Further efforts to promote investors' awareness of managed funds investment will be undertaken		
105	Training and professional development needs of the Malaysian investment management industry will be facilitated		
106	The development of the financial planning industry will be facilitated		
107	The further development of the trust/custodial services industry will be promoted		

Corporate Governance

No	Phase 1	Phase 2	Phase 3
108	The recommendations contained in the <i>Report on Corporate Governance</i> will be effected in a timely and comprehensive manner		
109	The SC will further facilitate efforts towards enhancing shareholder rights, especially those of minority shareholders, and broadening avenues for private enforcement of these rights		
110	Minority shareholders' rights in respect of related party transactions will be further strengthened		
111	Public listed companies will be required to provide appropriate shareholder value disclosures for securities issuance, restructuring, take-overs and merger exercises		
112	A set of principles, best practices and standards will be developed to encourage institutional investor activism in corporate governance and the promotion of shareholder value recognition		
113	The SC will strongly support the efforts of Badan Pengawas Pemegang Saham Minoriti Berhad in promoting shareholder activism in Malaysia		
114	The SC will work with relevant industry bodies in enhancing the quality and independence of auditors of public listed companies		

No	Phase 1	Phase 2
115	The SC will encourage the improvement of channels of communication between companies and their shareholders	
116	The SC and KLSF will initiate further measures to promote timely, comprehensive and regular dissemination of material and relevant company information to shareholders	
117	Efforts to further enhance disclosures in annual reports by public listed companies will be examined	

Regulatory Framework

No	Phase 1	Phase 2	Phase 3
118	The SC will put in place a comprehensive programme that will gradually implement a system of market-based regulation across all segments of the capital market		
119	The SC will maintain the existing regulatory structure in relation to arrangements for the regulation of wholesale and retail markets		
120	Relevant identified market institutions will be established as full front line regulators to complement the SC's role in the regulation of capital markets		
121	Appropriate industry associations will be identified and recognised as self-regulatory organisations to complement the SC's regulatory functions		
122	Further efforts will be pursued to achieve regulatory parity in the treatment of all participants in the capital market through functional regulation		
123	Efforts to create a single licensing regime and consolidation of securities and futures legislation will be pursued		
124	Measures to eliminate market segmentation in respect of underwriting, corporate finance, asset management and brokerage services will be introduced		
125	Cross market surveillance as well as co-operation and co-ordination between regulatory authorities should be enhanced to strengthen market oversight, and to ensure the consistency and effective pursuit of regulatory objectives and priorities		
126	Measures to enhance regulatory transparency, accountability and independence will be introduced		
127	Measures will be introduced to enhance processes and capabilities for effective enforcement		
128	Measures will be taken to enhance the enforcement capacity of the SC		
129	The regulatory framework will be enhanced to provide for appropriate mechanisms for systemic risk management		
130	The SC will develop a regulatory framework for the implementation of electronic commerce in the capital market		

No	Phase 1	Phase 2
131	The SC will introduce measures to improve the assessment of regulatory cost-effectiveness	
132	A five year review to monitor effectiveness of regulatory structure and framework will be conducted	
133	A comprehensive review of the current tax framework relating to the capital market should be carried out	

Technology and E-Commerce

No	Phase 1	Phase 2	Phase 3
134	Capital market regulation will be technology-neutral and facilitative of innovation		
135	Access to the market's trading infrastructure will be enhanced		
136	Regulatory issues relating to the primary market offering and secondary market trading of capital market products through electronic means will be clarified		
137			End-to-end straight through processing in the Malaysian capital market should be achieved, with appropriate linkages with international systems to be facilitated
138	The facilitation of electronic trade settlement through the integration of the technologies of the clearing and settlement system with the payment system will be examined		
139	The development of online value-added services and innovations such as financial portals and financial hubs will be facilitated		
140	Online trading of units in unit trust funds will be permitted		
141	Surveillance and enforcement capabilities of online capital market activities will be enhanced		
142	Training and education programmes for market institutions, market participants and investors on the use of technology and e commerce will be enhanced		
143	International standards of security, reliability and privacy will apply to technology infrastructure		

Training and Education

Nb	Phase 1	Phase 2	Phase 3
144	Training programmes to create highly skilled and flexible market professionals will be developed		
145	A culture of continuous learning and skill enhancement will be encouraged through Continuing Professional Education programmes		
146	Skills of regulators, including front line regulators and self regulatory organisations, will be strengthened		
147	Efforts will be made to increase the availability of skilled graduates for the capital market through arrangements with universities in curriculum development		
148	Licensing examinations for capital market professionals will be streamlined		
149	Education, training and licensing examinations will be made more accessible		
150	The skills, knowledge and competencies of Bumiputera intermediaries will be enhanced		
151	Investor protection and education will be further promoted through awareness programmes		
152	The SC will develop SIPC as a regional capital market training centre		