Chapter 9: Conclusions and Recommendations

In the scene of Malaysia corporations , two groups of people need to understand financial futures and derivatives i.e. the management and the accountant. Derivatives themselves are not risky but the risks are dependent upon how they are used. Lack of understanding of derivatives may lead to lack of control which will result in hidden risks. Derivatives are designed to transfer risk from risk averse to risk comfortable party. Unexpected derivative losses can happen as it was shown over the last 12 months where losses exceed USD1 billion due to traders not understanding and exercising the concept of derivatives wisely.

Derivatives are- important as the exposure is greater than the cost due to its off balance sheet risk. The nature of the derivatives is such that the value of the derivatives today will not remain stagnant the next day. In position-taking, it is vital to identify the nature of the derivatives correctly in order for the real exposure can be identified and controlled, and unnecessary risks avoided. In hedging, the full underlying risk position of the hedge must be recognised, and hedge accounted for correctly, together with correct marking to market of the asset being hedged.

Derivatives position should be valued against off-setting assets as well as individually. It is important that losses are accounted for against the right assets. The Accounts/ Control Department must know where to access valuations, whether valuations are realistic and how to model valuations. There must be a good control department to counter check all deals made. Management must also understand the underlying notional size of options, their risk reward rations, their volatility and their behavioural characteristics. Value at risk must be calculated and understood and illiquidity and counterparty risk must be qualified and quantified.

Growth in the emerging Asean economies has accelerated beyond all expectations over the last decade or so. Many countries are, accordingly, facing economic and socio-political issues which are of increasing concern to international investors who have directed a vast amount of capital to the region. This threatens to introduce increased volatility in the economic variables much beyond the comfort zone that both asset and liability managers have come to expect. Accordingly, there is a heightened recognition of the need to manage this risk using a portfolio of both traditional and hybrid structures so that there is some cover against the unexpected.

Accountants play a vital role in the financial management in Malaysian corporation, hence, financing training could be given via accountancy bodies such as Malaysian Institute of Accountancy. Tax incentive on training courses on the Financial Futures can be given to encourage accountants to attend such training courses. KLOFFE and MME play a vital role in conducting seminars and training to educate the general public and promoting the uses of the Futures.

It is generally felt that there is lack of positive publicity of this financial futures, the negative publicity such as Barring case is too much, though. Government should attempt to encourage the Financial Futures via meetings with the Senior level of management. Multi national companies should be encouraged to bring in expertise from their holding companies to increase the competency of the Financial counterparts in Malaysia. Communication between the industry and regulators is vital in any kind of paradigm shift affecting the Country as a whole.

Tax incentive in the nature similar to the Reinvestment Allowance available to the expansion and modernisation program given to manufacturing firms can be given to financial institutions to install the computer software and hardware in preparation to trade in the financial futures. As most companies are facing problem to set up proper internal control, BNM could set up Special task force in the capacity as advisory to assist and educate organisation in this aspect.

Given the weight of the overall positive factors characterising the Malaysian financial futures market, it is inevitable to conclude that, the market, certainly holds great prospect as whole. Corporate members may come and go, but the market is likely to grow. Brokers committed to the quick buck rather than long term development will definitely go. Ultimately, it is not the number of broking members, but the soundness, product relevance, liquidity, cost efficiency and broking profitability of a marketplace that makes for its long term success.