Glossary

In the Masterplan, the following terms are used with the following meanings:

Alternative trading system (ATS)

Proprietary electronic trading facilities for **securities** that are traded principally on securities exchanges or other organised markets. Some ATSs have price discovery functions while others serve as matching systems or crossing systems using prices already established in organised markets.

Arbitrage

The simultaneous purchase and sale of the same, or essentially similar, security in two different markets in an attempt to profit from short-term price disparities.

Asset-backed securities

Securities issued which are collateralised by financial assets.

Bai` Dayn

The sale of debt where the debt must arise out of a contract of exchange or *'uqud al-Mu'awadat al-Maliyah*, such as an asset sale (based on **Bai` Bithaman Ajil**) or trade financing (based on **Murabahah**).

Baitul Mal

An Islamic treasury institution intended for community development as well as to provide for disadvantaged Muslims.

Bai` Bithaman Ajil

An agreement involving sale and purchase transaction for the financing of an asset on a deferred payment basis with a pre-agreed payment period. A profit margin is included in the sale price.

Back-door listing

The SC's *Policies and Guidelines on Issue/Offer of Securities* define back-door listing as a situation whereby a public company listed on KLSE acquires assets/businesses/interests either by way of cash or issue of securities or both and, as a result, there is a very significant change in the business direction of the listed public company.

Capital adequacy requirements (CAR)

CAR is a set of prudential rules implemented by KLSE for stockbroking companies to replace its rules relating to **minimum liquid fund requirements**. CAR focuses on ensuring the stockbroking company's financial resources and capital are maintained in a readily liquid form to meet the Total Risk Requirement as defined by the Rules of KLSE.

Closed-end fund

A public limited company engaged wholly in the business of investing its funds in **securities** for the purposes of spreading investment risks and managing a **portfolio** of investments to gain revenue and profit for the benefit of its shareholders. Closed-end funds issue shares only during the initial offer period and they do not repurchase shares from unit holders, unlike **unit trusts** . The price of shares in a closed-end fund is determined by demand and supply and is not directly based on the net asset value of the fund.

Collective investment scheme

A scheme whereby an entity is set up to pool money from many investors who share the same investment objectives. A full-time manager then invests the pooled money on behalf of the investors in securities or other investments in accordance with those objectives. The basic forms of collective investment schemes are **unit trust** -based vehicles, share-based corporations such as **closed-end funds** , and pension and provident funds.

Corporate governance

The process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value, whilst taking into account the interests of other stakeholders.

Delivery versus payment (DVP)

Settlement in which cash payment occurs at the same time as delivery of a purchased instrument. Three broad structural approaches to achieving DVP have been identified by the Bank for International Settlements (BIS):

- Model 1 — settlement systems that transfer instructions for both **securities** and funds on a trade-by-trade (gross) basis, with final (unconditional) transfer of **securities** from the seller to the buyer (delivery) occurring at the same time as final transfer of funds from the buyer to the seller (payment)
- Model 2 — settlement systems that settle **securities** transfer instructions on a gross basis with final transfer of **securities** from the seller to the buyer (delivery) occurring throughout the processing cycle, but settle funds transfer instructions on a net basis, with final transfer of funds from the buyer to the seller (payment) occurring at the end of the processing cycle
- Model 3 — settlement systems that settle transfer instructions for both **securities** and funds on a net basis, with final transfers of both **securities** and funds occurring at the end of the processing cycle

Demutualisation

The process of transforming a membership organisation (a mutual organisation, owned and governed by its members) into a for-profit shareholder-owned company.

Disclosure-based regulation (DBR)

This involves moving away from a merit-based regulation system (in which the SC assesses the merits and makes a determination of the viability of a proposal) to a DBR regime where the investor makes the decision based on available material information disclosed by the company.

Discount broker

A broker who charges a lower fee because he or she executes transactions but does not provide clients with other services, such as investment advice.

Due diligence

In the Malaysian context, this refers to the process by which persons must conduct inquiries for the purposes of timely, sufficient and accurate disclosure of all material statements, information or documents for the submission of proposals to the SC.

Electronic Communication Network (ECN)

ECNs are a form of **ATS**. They are automated mechanisms that can execute orders to trade **securities** , and that disseminate information concerning such orders over an electronic network to relevant parties.

Electronic trading system

A system which provides various services such as access to real-time quotes, analysis and online order entry, where orders are executed in an electronic trade-matching system, with no personal contact with a broker, no floor traders, and no open-outcry trading floor—an end-to-end electronic transaction.

Fiqh muamalat

Islamic commercial law.

Front-line regulator (FLR)

The FLR participates directly in the formulation and enforcement of rules, regulation, practices and procedures that govern the operations of the securities and futures market, as well as undertake surveillance responsibilities. It deals directly with its members as well as the investing public. Institutions such as the exchanges have regulatory responsibilities under the relevant **securities** or **futures** laws.

Futures

A contract that obligates the purchase or sale of a specific standard quantity of an asset at a specific price on a specific future date. The FIA 1993 defines a futures contract as: (i) an agreement that is, or has at any time been, an eligible delivery agreement or adjustment agreement; (ii) a futures **option** ; (iii) an eligible exchange-traded option; or (iv) any other agreement, or any other agreement in a class of agreements, prescribed to be a futures contract under Section 2B of the Act. However, the definition excludes instruments such as currency and interest rate swaps, forward exchange rate and forward interest rate contracts, and agreements that are prescribed not to be futures contracts or prescribed not to be traded on a futures market.

Ijarah

A contract where the bank or financier buys and leases equipment or other assets to the original owner for a fee. The duration of the lease as well as the fee is set in advance. The bank remains the owner of the assets.

Istisna`

A contract to acquire an asset according to the specifications given in the sale and purchase agreement. After the parties to the contract have decided on the price, settlement can be delayed or arranged based on the schedule of work completed.

Intermediary

Professional securities industry participants who act as go-betweens for issuers and investors. Intermediaries include brokers, fund managers, invesment advisers, other financial institutions and custodians.

Market makers

Market makers ensure that there is always a market in which investors can buy and sell shares of the clients they are market makers for. The market maker quotes bid and offer prices at which he stands ready to buy and sell.

Minimum liquid fund requirements

The concept of measuring the financial requirements of stockbroking companies based on changes in the level of indebtedness regardless of the risks involved. Under the earlier provisions of the Rules of KLSE, stockbroking companies must at all times ensure that the liquid funds employed in the business are maintained at RM500,000 or 5% of aggregate debt, whichever is greater. These rules were replaced by capital adequacy requirement **(CAR)** in 1999.

Mudharabah / Muqaradah

Trust financing agreement involving a contract where one party provides the capital and another party manages the project using his entrepreneurial skills. Profits are shared based on an agreed ratio and the losses are borne by the provider of the funds.

Murabahah

An agreement that refers to the sale and purchase transaction for the financing of an asset or project whereby the costs and profit margin (mark-up) are made known and agreed by all parties involved. The settlement for the purchase, which can be done in cash or instalments, is specified in the agreement.

Musyarakah

A partnership arrangement between two parties to finance a project whereby all parties contribute capital either in the form of cash or in kind. Any profit derived from the project will be distributed based on a pre-agreed profit sharing ratio, but losses will be shared on the basis of equity participation.

Musyarakah Mutanaqisah

A type of **musyarakah** equity participation or investment in an asset where a co-partner gives the right to his equity partner to acquire the invested asset through a one time payment or periodical instalments based on the pre-agreed conditions. In other words, one partner buys over the equity owned by the co-partner.

Mutual fund

Mutual funds, like **unit trust** funds, are open-end **collective investment schemes**. The main difference between the two is in their legal structure. A mutual fund is an investment company that issues redeemable shares. This is in contrast to a **unit trust** which is not a company and which issues units instead of shares.

Online trading

Buying and selling of **securities** that takes place through electronic means such as the Internet.

On-the-run issue

Refers to the most recently issued debt securities, that are highly liquid due to their high level of trade activity.

Open outcry

The practice in a stock exchange or commodity market whereby trading is done by oral calling of bids and offers by members to the point where prices are settled and deals are concluded.

Option

A contract that gives the holder the right to buy or sell a specific asset at a specified price by a specific date.

Over-the-counter

A market for the purchase and sale of **securities** not listed on an organised exchange.

Private Debt Securities

Capital market debt instruments used by the private sector and government-related organisations to access debt funds from the capital markets.

Qardhul Hasan

It is a contract of loan between two parties on the basis of social welfare or to fulfil a short-term financial need of the borrower. The amount of repayment must be equivalent to the amount borrowed. It is however legitimate for the borrower to pay more than the amount borrowed as long as it is not stated or agreed at the point of contract.

Remisier

A person who is not an employee of a stockbroking company but engaged by the stockbroking company to carry on the business of dealing in **securities** on its behalf. A remisier receives remuneration by way of a commission on the brokerage charged on the securities transacted through him. Such commission payable shall be in accordance with the *Rules of KLSE*. Also referred to as a Commissioned Dealer's Representative.

Repurchase agreement

A financing agreement used primarily in the government **securities** markets whereby a dealer or other holder of government securities sells the securities to a lender and agrees to repurchase them at an agreed future date at an agreed price.

Reverse take-over

A situation where an offeror makes a take-over offer for the voting shares of an offeree by means of an exchange of shares such that if the take-over offer is accepted, the shareholders of the offeree would control the offeror.

Securities

In Malaysia, the SIA and SCA define securities as: (i) debentures, stocks or bonds issued or proposed to be issued by any government; (ii) shares in or debentures of a body corporate or an unincorporated body; or (iii) unit trusts or prescribed investments, and includes any right, option or interest in respect thereof.

Securities borrowing and lending

Refers to the borrowing and lending of **securities** listed on the exchange. Elements of a securities borrowing and lending transaction include the following:

- the borrowing of **securities** for a period of time
- the borrower simultaneously or previously provides the lender with **collateral**
- the lender earns a fee (or returns on the reinvestment of cash **collateral**) as consideration for the loan of the **securities**
- there is an outright disposition of the **securities** by the lender of the **securities** to the borrower
- the lender may recall the loaned **securities** at any time during the loan after serving adequate notice
- at the end of the loan period, the borrower returns replacement **securities** to the lender which are of the same number and type as the original **securities**

Self-regulatory organisation

A private sector organisation which is responsible for regulating its own members through the adoption and enforcement of rules of conduct for fair, ethical and efficient practices, subject to the oversight of the regulatory authorities.

Shelf-registration

Under a shelf registration arrangement, a proposal may be made by eligible issuers to make multiple issues of **securities** within a specified time frame. Once the proposal is approved and subject to relevant guidelines, the issuer will be permitted to make multiple issues of securities within this time period without securing further approvals in relation to each issue in the series.

Short selling

Selling a contract or **securities** that the seller does not own based on the expectation of a price decline and that the seller will be able to buy it back and profit from the price difference.

Straight-through processing

Automation of trade processing that allows manual intervention to be eliminated through implementation of procedures that require trade data to be entered only once and that same data is then used for all pre-settlement and settlement functions.

Sukuk
A document or certificate which represents the value of an asset.

Syariah
The divine law of Islam derived from three sources:

- the Quran
- the Hadith (a transmitted narration of what the Prophet Muhammad said, did, approved or disapproved)
- the Sunnah (a path or manner of life. A term used for those rules and ordinances of the Muslim community which are established upon the precept or practice of the Prophet Muhammad)

Systemic risk
The risk that a disruption, whether at a firm, a market segment or across markets, will cause widespread difficulties at other firms, in other market segments or in the financial system as a whole.

Takaful
A form of Islamic insurance based on the Quranic principle of Ta'awun or mutual assistance. It provides mutual protection of assets and property and offers joint risk sharing in the event of a loss by one of its members. Takaful is similar to mutual insurance in that members are the insurers as well as the insured.

Ujrah
A financial charge for the utilisation of services. In the present day context, this can be in the form of salary, wages, allowances, commissions and the like.

Unit trust
An arrangement or scheme that invests funds subscribed by the public in **securities** , **futures** contracts or property and in return, issues units that it is obliged to repurchase at any time.

Wakaf
The appropriation or tying up of a property in perpetuity so that no proprietary rights can be exercised over the usufruct (the legal right of using and enjoying the fruits or profits of something belonging to another to fulfil a philanthropic objective). Wakaf properties cannot be sold, inherited or donated to any party.

Warrants
The right but not the obligation to buy a specified number of a company's shares at a stated price within a specified time period. Also referred to as Transferable Subscription Rights.

This page is intentionally left blank