MALAYSIAN DEBT SECURITIES AND SUKUK MARKET

A Guide For Issuers & Investors

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Suruhanjaya Sekuriti
Securities Commission
Malaysia

MALAYSIAN DEBT SECURITIES AND SUKUK MARKET

A Guide for Issuers and Investors

A Joint Publication
by
Bank Negara Malaysia
and
Securities Commission Malaysia

2009

Disclaimer

This publication has been prepared for informational purposes only. It does not constitute an offer to buy or sell securities, nor does it offer investment advice. Bank Negara Malaysia and the Securities Commission Malaysia have taken reasonable measures to ensure that the factual and legal information is accurate. However, this guidebook cannot be deemed a comprehensive statement of all the intricacies of laws and practices relating to Malaysian debt securities, nor can it take account of the circumstances of every investor. Therefore, reliance should not be placed on the guidebook; investors who want advice on which Malaysian debt securities or other investments are best suited to them, or on trading strategies, should consult professional advisors.

A softcopy of this guidebook is available at:

http://bondinfo.bnm.gov.my

http://www.sc.com.my

For enquiries, please contact:

Director
Financial Sector Development Department
Bank Negara Malaysia
Jalan Dato Onn
50480 Kuala Lumpur
Tel : +603 - 2698 8044
Fax : +603 - 2691 3661

General Manager & Head
Bond Market Department and PDS Issues Department
Securities Commission Malaysia
3 Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur
Tel : +603 - 6204 8505
Fax : +603 - 6201 5518
E-mail : Ds@seccom.com.my

Acknowledgement

We would like to express our appreciation to RAM Holdings Berhad for the production of this guidebook.

FOREWORD BY GOVERNOR, BANK NEGARA MALAYSIA

The development of the debt securities and sukuk market in Malaysia has accompanied the transformation of the Malaysian economy that has now become more diversified and private sector driven. The market, initially dominated by the Government debt securities, now reflects the growing demand for the long term financing requirements of the private sector. The corporate sector now raises 58% of their financing requirements through the debt securities and sukuk market compared to about 33% ten years ago. The presence of a deep and liquid debt securities and sukuk market thus contributes towards the stability of the financial system.

To ensure the efficient functioning of the market, mechanisms have been put in place to increase liquidity in the market to enhance the overall price discovery process. Equally important is the comprehensive and modern depository, delivery and settlement system to facilitate the issuance, trading and settlement of debt securities and sukuk in the market. With these mechanisms and structures in place, the Malaysian debt securities and sukuk market is today the largest in the ASEAN region, accounting for about 80% of our gross domestic product in 2008.

The Malaysian debt securities and sukuk market has also grown to become more innovative and sophisticated to meet the diverse risk-return profiles and requirements of both issuers and investors. The proliferation of new types of instruments with extended maturity profiles have generated a diversified range of players, both local and foreign to participate in the market. This was facilitated by the liberalisation of the market in 2005 to allow for issuance of debt securities by foreign corporations and multilateral agencies in ringgit denominated papers. In 2007, this was extended to foreign currency-denominated issuances. Indeed, this has attracted many foreign corporations, multinational corporations and multilateral agencies to raise funds and invest in issuances and origination out of Malaysia, hence enhancing the Malaysian market, and strengthening our inter-linkages with other international financial markets.

The growth of the debt securities and sukuk market is also spurred further through the large issuance and growing interest in sukuk which now forms an integral part of the Malaysian financial market. As a pioneer in the global sukuk market, Malaysia has remained the largest issuer of sukuk, with 62% of the world's outstanding sukuk having originated in Malaysia. Malaysia's lead is also reflected in the innovative and competitive structures that have been pioneered such as the exchangeable sukuk musharakah and sukuk based on istisna' and ijarah. The recent Emas sukuk issuance by Petronas further reinforces Malaysia's position as the centre for sukuk origination.

To ensure that access to financing through the financial market remains unhindered during the recent global financial turmoil, Bank Negara Malaysia recently established Danajamin Nasional Berhad, a national financial guarantee insurer to provide credit enhancement for viable corporations to raise financing from the debt securities and sukuk market. In addition, the collaboration and coordination between the regulatory agencies is aimed at ensuring that the market remains resilient and robust towards any shocks and that stability is preserved.

The publication of this guidebook provides important information on key aspects of the domestic debt securities and sukuk market as it continues to evolve to meet the changing requirements of businesses and investors. This guidebook provides a one-stop reference for issuers and investors on raising and investing funds in the Malaysian debt securities and sukuk market. The increased domestic and foreign participation in the market will not only contribute to the further development of the market, but will also strengthen financial and economic inter-linkages with other parts of the world.

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
Governor
Bank Negara Malaysia

FOREWORD BY CHAIRMAN, SECURITIES COMMISSION MALAYSIA

The Malaysian debt securities and sukuk market has expanded rapidly over the past decade to become an integral part of the Malaysian capital market. It is today, one of the largest markets in Asia. As at the end of 2008, the outstanding amount of debt securities and sukuk was RM585 billion, more than quadruple the size of the market during the 1997/98 Asian financial crisis. This phenomenal development has largely been achieved through the exceptional growth of the corporate debt securities and sukuk market. Between 2000 and 2008, RM336 billion worth of corporate debt securities and sukuk were raised by the private sector to fund economic activities, including long-term infrastructure projects.

With the sukuk market providing the springboard, the past decade has also witnessed the rapid growth of Malaysia's Islamic capital market. From being almost non-existent two decades ago, the sukuk market has now grown to more than RM233 billion, facilitated by a wide range of regulatory, tax and other developmental initiatives. We now have a fast developing Islamic fund management industry with products ranging from equity and sukuk funds to real estate investment trusts (REIT) and exchange-traded funds (ETF). Indeed the growth of Islamic finance in Malaysia has been remarkable - it is now the world's most comprehensive Islamic capital market and the largest and most innovative sukuk market.

Given our statutory mandate to develop the capital market, the Securities Commission is committed to ensuring continuous growth and development of the domestic debt securities and sukuk market. Both are strong and essential complements to Malaysia's fast growing equity market as they provide cost-efficient source of long-term funding. Towards this end, the Securities Commission will continue to work closely with Bank Negara Malaysia to facilitate the development of the market by establishing a robust legal, regulatory and tax framework, and strengthening the market infrastructure to ensure a smooth and orderly functioning of the market.

In pursuing further measures to deepen and broaden the market, it is recognised that efforts must also be channelled towards providing cohesive and comprehensive sources of information and references on the prevalent market practices, conventions and processes, to all market participants. In this regard, the Securities Commission is pleased to collaborate with Bank Negara Malaysia on this comprehensive guidebook. This publication is also timely as it will complement on-going initiatives to promote Malaysia as a leading market for originating, distributing and trading of sukuk under the Malaysia International Islamic Financial Centre (MIFC) agenda.

I am confident that this guidebook will enable market participants to have a better understanding and appreciation of the increasingly important role that the debt securities and sukuk market plays in the financial system, and that there will be greater interest generated among local and foreign investors, issuers and intermediaries to consider tapping opportunities in this fast growing market.

Tan Sri Zarinah Anwar
Chairman
Securities Commission Malaysia

CONTENTS

Tables

Charts

Appendices

1

INTRODUCTION

As the third-largest bond market in Asia (ex-Japan), the Malaysian debt securities and sukuk market is one of the most advanced in Asia. It has expanded rapidly since its nascent stage in the 1980s. Consequently, end-2008 saw its size quadruple to RM585.5 billion since end-1997, of which RM61.3 billion were short-term papers. Corporate bonds and sukuk (excluding short-term papers) constituted 51% or RM267.9 billion of total outstanding bonds and sukuk in the domestic market as at end-December 2008, with 57% of the corporate papers structured according to Islamic principles. Malaysia holds the record as the centre for the largest issuance of Islamic securities in the world. The local debt securities and sukuk market has continued providing a stable source of long-term financing for corporates, as evidenced by the RM51.2 billion gross issuance value of corporate bonds and sukuk in 2008, of which RM44.1 billion had originated from local corporates.

The Malaysian debt securities and sukuk market offers an extensive array of instruments, from short-term commercial papers to medium-term notes and up the tenure curve to corporate bonds of over 30 years maturity. These emanate from all sectors of the economy, from quasi-government entities and public companies from the financial sector to real estate and infrastructure, as well as short-term notes and papers issued by the Government. An interesting feature of the Malaysian debt securities market is the existence of a parallel universe of sukuk, or Islamic securities, which enjoys a symbiotic relationship with conventional papers in a thriving environment.

From a purely domestic market, the Malaysian debt securities and sukuk market has increasingly taken on an international dimension. As a testimony to this, 9 geographically diverse foreign entities from Korea, the Middle East, India and Singapore had issued RM7.1 billion of ringgit-denominated bonds in 2008; this brought the total issuances by foreign entities to RM10.8 billion as at end 2008. At the same time, foreign investments in the Malaysian debt securities and sukuk market, excluding short-term money-market instruments, increased four-fold from a mere RM11.6 billion in 2004 to RM42.9 billion as at end 2008 - underscoring the attractiveness of the Malaysian debt securities and sukuk market as a prominent emerging centre for investment in bonds and sukuk. A testament to the significance of the Malaysian fixed income market in the global bond markets is its inclusion in a number of global indices, such as the inclusion of Malaysian Government bonds in the World Government Bond Index which is one of the most referenced benchmark market index by the international investing community, as well as in the Barclays Global Aggregate Index. The Malaysian Government bonds are also included in the ABF Malaysian Bond Index Fund as well as the ABF Pan Asia Bond Index Fund.

All these translate into a vibrant and thriving Malaysian debt securities and sukuk market, with enormous potential for both issuers and investors. The ample liquidity in the domestic financial system coupled with the growing maturity of the debt securities and sukuk market offer tremendous opportunities and benefits to issuers and investors in the already active market. Appetite for new debt securities and sukuk issuances in the Malaysian market remains unabated. In fact, demand is increasing, in consonance with the growth of the capital market, particularly from asset and fund management companies as well as pension funds. For investors, the Malaysian debt securities and sukuk market offers a diverse range of papers from all sectors of the economy that span a broad maturity spectrum, offering viable investments with attractive returns.

With the committed support of the Malaysian Government and regulators, and a prudently managed economy that is expected to continue expanding at a sustainable pace amid a relatively stable political atmosphere, the Malaysian debt securities and sukuk market offers unparalleled opportunities as a desirable centre for the issuance, trading and investment in debt securities and sukuk. It is indeed one of the most sophisticated and developed bond markets in Asia, with a comprehensive network of supporting infrastructure, a facilitative regime, and regulatory as well as fiscal frameworks designed to ensure its continued growth, development and success. Please refer to Appendix 4 for the chronological milestones in the development of the Malaysian debt securities and sukuk market.

Government and BNM Securities

The market for Government securities encompasses both conventional and Islamic papers. Malaysian Government Securities (MGS) are long-term papers while Malaysian

Treasury Bills (MTB) are short-term securities. Their Islamic equivalents are long-term Islamic securities or Government Investment Issues (GII) and short-term Islamic securities or Malaysian Islamic Treasury Bills (MITB). These securities are marketable instruments issued by the Government of Malaysia to raise funds from the domestic capital market to finance the Government's development expenditure and working capital. In addition to Government securities, Bank Negara Malaysia also issues Bank Negara Monetary Notes (BNMN). These papers are issued according to conventional and Islamic principles. As at end-2008, the total outstanding government securities stood at RM303 billion.

Corporate or Private Debt Securities

Spurred by strong economic expansion, supported by the efforts of the regulators and well received by market participants, the corporate debt securities market (also interchangeably known as the private debt securities or PDS market in Malaysia) has remained on an upward growth trajectory. The catalyst for this remarkable growth was the Asian financial crisis in 1997 which brought to the fore the mismatches in funding maturities and the need for diversification of funding away from the traditional banking sector. Following this, determined efforts were directed towards the development of the corporate debt securities market as a viable alternative avenue for funding and to reduce the reliance on the banking sector. The corporate bond market has been posting an average annual growth of 7% since 2000, reaching RM124.2 billion as at end-December 2008. Meanwhile, the commercial papers market stood at RM8.7 billion as at end-December 2008. Corporations have widely accepted the bond market as a viable fund-raising alternative to bank borrowings and the equity market. Investors, on the other hand, are able to adjust their risk-return profiles from the panoply of securities in both ringgit and foreign currencies that are available for trading and investment.

The Malaysian corporate debt securities and sukuk market offers investors a diverse selection of securities in terms of type and tenure. Investments can be made in securities structured according to conventional or Islamic principles, denominated in either ringgit or in foreign currencies. Over the years, there have been increased issuances of asset-backed securities and convertibles, which provide further options for investors to manage their portfolios more efficiently. The maturity profile of securities in the bond market has lengthened to over 30 years; these cater to investors who require longer duration exposure.

Corporate Islamic Securities or Sukuk

A unique feature of the Malaysian market is the co-existence of an Islamic securities or sukuk market. Islamic securities are structured to comply with *Shariah* principles, which prohibit the charging of interest. Islamic securities appeal to two very different sets of investors – those investing strictly for religious reasons, and conventional investors seeking liquid, attractively priced instruments to invest in and to diversify their portfolios.

The corporate sukuk market has grown exponentially in recent years, with an average annual growth rate of 21% between 2001 and 2008. In fact, the outstanding amount of sukuk have surpassed the amount of conventional debt securities in the domestic market. The depth of the Malaysia sukuk market was underlined by the sukuk issuance amounting to RM15.4 billion by Binariang GSM Sdn Bhd, which was the world's largest sukuk issuance by a corporate. In 2008, the amount of corporate sukuk issued exceeded RM47 billion. Corporate sukuk currently account for 55.9% of the outstanding corporate debt securities and sukuk issued in Malaysia.

The Malaysian sukuk market saw the world's first ringgit sukuk issuance in 1990, i.e. Shell MDS Sdn. Bhd's RM150 million Bai' Bithaman Ajil Islamic Securities. This was the world's first ringgit sukuk issuance by a foreign-owned, non-Islamic company. The Malaysian sukuk market has since then proven to be a viable and attractive issuance centre for foreign issuers. It was the preferred issuance centre for the first sukuk issuance by a multilateral financial institution (International Finance Corporation), the first ringgit-denominated sukuk by the Islamic Development Bank, the first sukuk issuance by a Japanese multinational (Toyota Corporation) and the first sukuk issuance by a Japanese-owned corporation (AEON Credit Services). The Malaysian sukuk market was home to the USD 1.5 billion sukuk (as well as the USD 3 billion bond issue) by Petroliam Nasional Berhad (Petronas). This was the largest USD issuance by an Asian entity outside Japan in 2009.

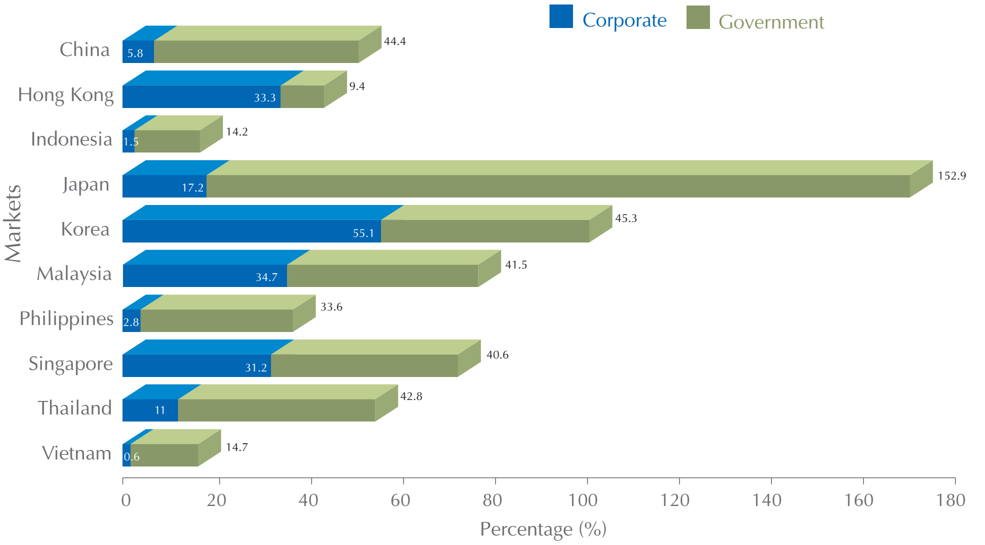
The Malaysian sukuk market has taken the lead in developing and innovating new Islamic securities structures and in pioneering the Islamic capital market. Indeed, Malaysia has the largest sukuk market in the world, with 61.4% of all outstanding sukuk worldwide originating from Malaysia. Malaysian sukuk issues also feature in the Dow Jones Citigroup Sukuk Index, the world's first sukuk index.

~~~~~~~~~~~

In contrast to most other Asian bond markets, the corporate debt securities and sukuk market in Malaysia is as large as the Government securities market. The corporate debt securities and sukuk market has continued its growth in large part due to, among others, the expeditious approval from the Securities Commission Malaysia (SC), i.e. issues that meet certain criteria will be deemed approved upon the receipt of documentation by the SC. The SC and Bank Negara Malaysia have also worked closely to facilitate the growth of the corporate debt securities and sukuk market through the issuance of joint guidelines, such as the Joint Information Note on the Issuance of Foreign Currency-denominated Bonds and Sukuk in Malaysia. Following these, multilateral financial institutions, multilateral development banks and foreign corporations have all tapped the Malaysian debt securities and sukuk market for their financing needs and profiling purposes. These issuers include globally recognised names such as the World Bank, the Asian Development Bank, KfW Bankengruppe of Germany and Industrial Bank of Korea.
~~~~~~~~~~~

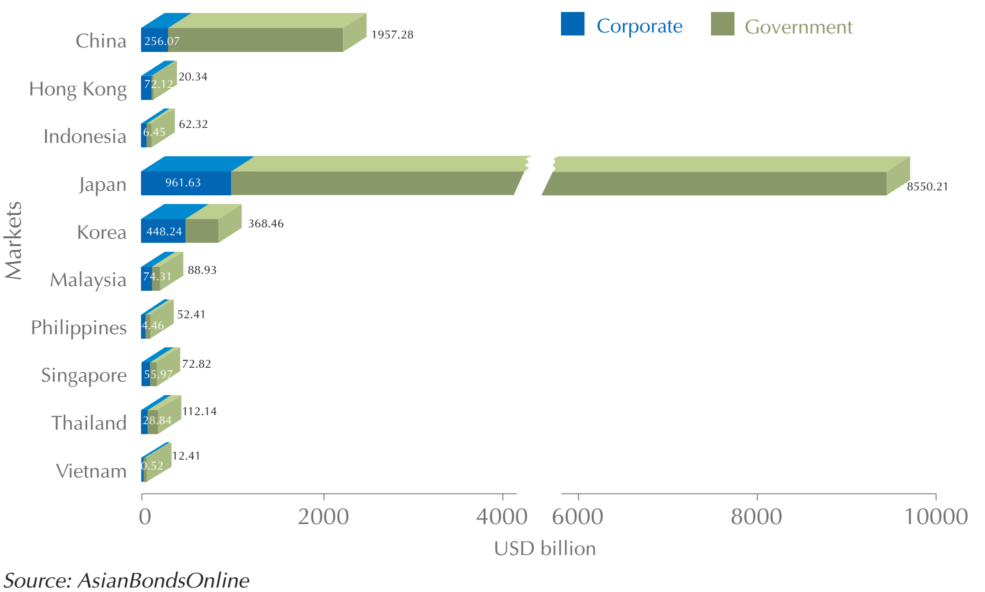
Facts and Figures

Chart 1.1: Asian bond markets - size as a percentage of GDP as at 2008



Source: AsianBondsOnline

Chart 1.2: Asian bond markets - outstanding local-currency bonds as at 2008



Source: AsianBondsOnline

Note: Figures are for both long-term and short-term papers.

Chart 1.3: Outstanding Malaysian debt securities and sukuk by type of issue

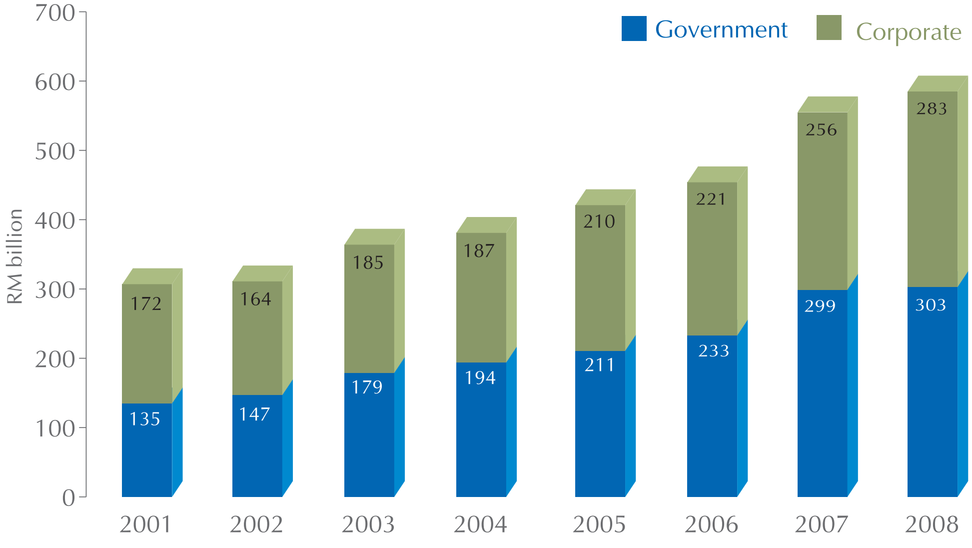
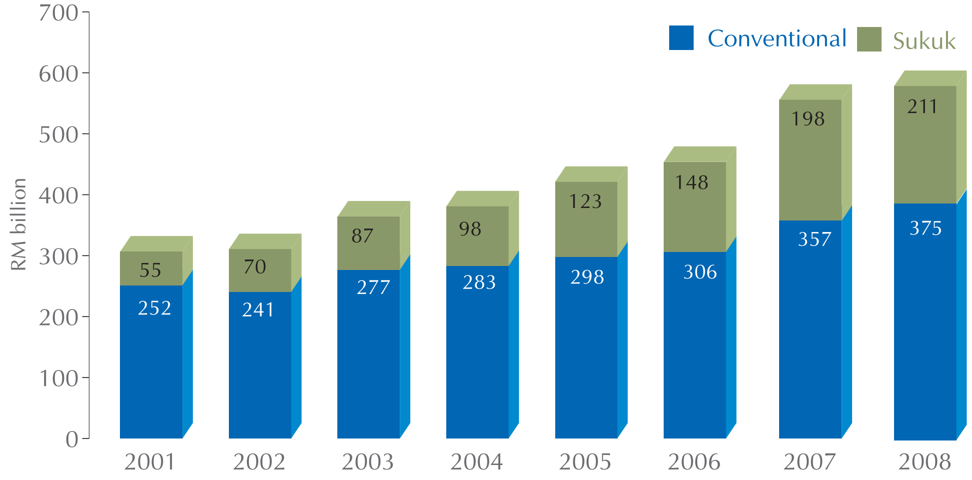


Chart 1.4: Outstanding Malaysian debt securities and sukuk by issuance principle



	2001	2002	2003	2004	2005	2006	2007	2008
Conventional	251.6	240.6	277.0	283.1	297.9	306.3	357.4	374.5
Sukuk	55.2	70.1	87.3	97.8	123.2	147.6	198.4	211.0
Total	306.8	310.7	364.3	380.9	421.1	453.9	555.8	585.5
of which								
Corporate sukuk	40.2	52.7	64.3	71.8	90.7	105.1	141.5	157.8
Government sukuk	15.0	17.4	23.0	26.0	32.5	42.5	56.9	53.2
Sub-total	55.2	70.1	87.3	97.8	123.2	147.6	198.4	211.0

Chart 1.5: Corporate bonds and sukuk issued by sector in Malaysia, 2000-2008

Chart 1.6: Annual gross issuance of debt securities and sukuk in Malaysia

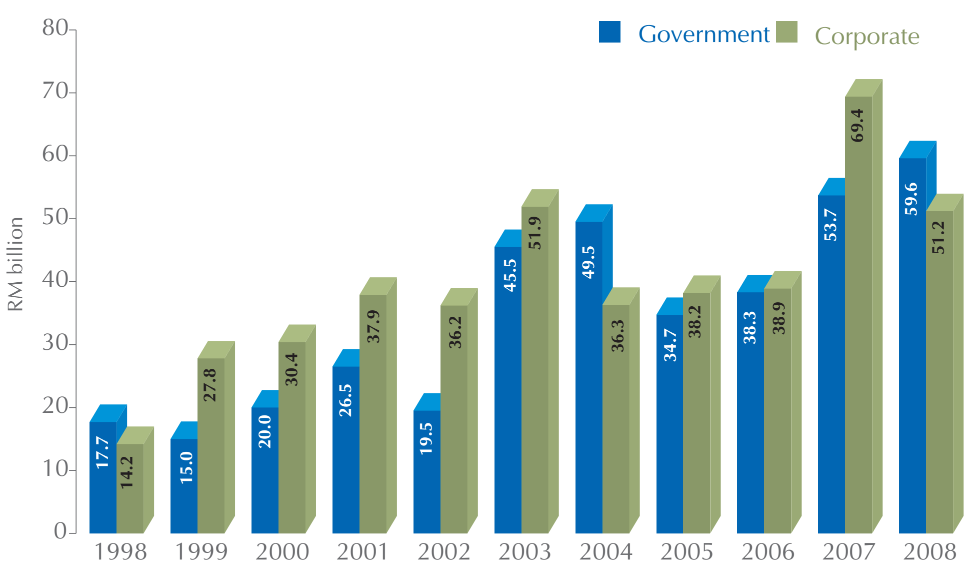
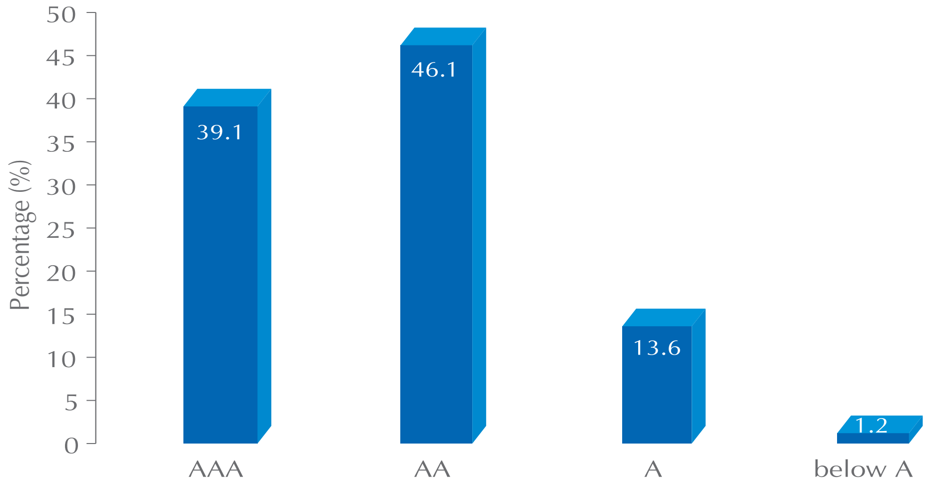


Chart 1.7: Ratings distribution of corporate bonds[1] and sukuk issued in Malaysia



[1] *As at end-2008. Figures exclude issuance by Cagamas Berhad and Khazanah Nasional Berhad.*

Source: RAM Ratings and MARC

2

LEGAL AND REGULATORY FRAMEWORK

The Malaysian debt securities and sukuk market is supervised by the SC and Bank Negara Malaysia. The regulators play a dual role of supervising the market intermediaries and the activities in the market, as well as actively supporting and developing the market infrastructure and fostering a conducive and facilitative environment. As a result of the coordinated and committed efforts of the regulators, the Malaysian debt securities and sukuk market has been charting stellar growth over the years.

Bank Negara Malaysia

Bank Negara Malaysia is the central bank of Malaysia. It was established on 26 January 1959 under the Central Bank of Malaya Ordinance, 1958, with the following objectives:

(i) To issue currency and keep reserves, safeguarding the value of the currency;

(ii) To act as a banker and financial advisor to the Government;

(iii) To promote monetary stability and a sound financial structure; and

(iv) To influence the credit situation to the advantage of the country.

Over the years, the roles and responsibilities of Bank Negara Malaysia have evolved and expanded. Today, Bank Negara Malaysia focuses on the 3 pillars of central banking: monetary stability, financial stability, and the payment system. In addition, emphasis is given to the developmental role of Bank Negara Malaysia in respect of economic management, institution building and the development of the financial system.

To enable Bank Negara Malaysia to meet its objectives, it has been vested with comprehensive legal powers under various Acts to regulate and supervise the financial system. These Acts include the Central Bank of Malaysia Act 1958[1] (Revised-1994) or CBA, i.e. a revision of the Central Bank of Malaya Ordinance; the Islamic Banking Act 1983; the Banking and Financial Institutions Act 1989 (or BAFIA); the Takaful Act 1984, the Insurance Act 1996 and the Development Financial Institutions Act 2002. Collectively, they lay the legal foundation and empower the Central Bank to license and regulate institutions comprising banks, investment banks, money brokers, insurance companies, takaful operators and development financial institutions which constitute the majority of the participants in the domestic debt securities and sukuk market.

As the banker and advisor to the Government, Bank Negara Malaysia's role includes managing the liabilities of the Government, both in Malaysia and abroad. It advises the Government on its loan programmes, including planning the auction calendar for government securities, taking into consideration the terms and timing of the loans and the types of securities. Bank Negara Malaysia participates actively in the monthly Cash Flow Committee meeting, chaired by the Treasury, to discuss the final details of Government securities issuances. In addition, Bank Negara Malaysia is responsible for the issuance process, registering, settlement and redemption of Government securities through the automated trading and settlement system, developed in-house.

Bank Negara Malaysia is also empowered by several different laws to issue Malaysian government securities on behalf of the Government of Malaysia. Conventional debt instruments such as MGS and MTB are issued under the Loan (Local) Act 1959 (Revised-2004) and the Treasury Bills (Local) Act 1946 (Revised-1977), respectively. On the other hand, Islamic securities such as GII and MITB are issued under the Government Funding Act 1983 (previously known as the Government Investment Act 1983). Each

---

[1] *A new CBA has been passed by Parliament in 2009 and is expected to come into force later in the year. This new Act will provide further clarity to Bank Negara Malaysia's roles and functions, amongst others, the regulation and supervision of financial institutions and the promotion of a sound and progressive financial system.*

Act sets a different issuance limit for conventional and Islamic instruments, from time to time, by order of the Yang di-Pertuan Agong - the constitutional monarch of Malaysia - as published in the Gazette.

The Treasury Bills (Local) Act 1946 empowers the Minister of Finance to borrow money through the issuance of treasury bills, while the Loan (Local) Act 1959 authorises Bank Negara Malaysia to raise funds within Malaysia on behalf of the Minister, for the Development Fund. The Government Funding Act 1983 provides for the raising of funds by the Government of Malaysia using instruments that adhere to Shariah principles, as approved by the National Shariah Advisory Council. This Act grants the Minister the authority to receive investments by creating and issuing instruments evidencing such investment, on behalf of the Government of Malaysia.

It is stipulated in the Central Banking Act 1958 (Revised 1994, 2006) that Bank Negara Malaysia can provide temporary advances, known as "ways and means" advances, to the Government to cover any deficit in the budget revenue. However, there are legal limitations to the amount and the duration on loans that Bank Negara Malaysia can make available to the Government. As a result, Bank Negara Malaysia's holding of MGS is minimal. Since 2005, Bank Negara Malaysia is allowed to purchase MGS from the primary and secondary markets based on market prices and to use the purchased securities for its open market operations.

Bank Negara Malaysia had been the regulator of the domestic corporate debt securities and corporate sukuk market before it came under the purview of the SC in 2000. Today, the Central Bank continues to play a pivotal role in supporting the local debt securities and sukuk market through its involvement in infrastructure development and the promotion of a facilitative foreign exchange administration framework for foreign issuers and investors in the Malaysian market.

Bank Negara Malaysia is also the issuer of Bank Negara Malaysia Monetary Notes, which are issued for the purpose of managing liquidity in both the conventional and Islamic financial markets. The Central Bank also conducts repurchase auctions as part of its open market operations.

Securities Commission Malaysia

The SC was established on 1 March 1993 under the Securities Commission Act 1993 to promote and maintain fair, efficient, secure and transparent securities and futures markets, and to facilitate the orderly development of an innovative and competitive capital market. The SC is a self-funding statutory body with investigative and enforcement powers. The SC's many regulatory functions include the following:

(i) Advising the Minister on all matters relating to securities and futures industries;

(ii) Regulating all matters relating to securities and futures contracts;

(iii) Being the approving authority for corporate debt securities and sukuk issues;

(iv) Acting as the registering authority for the prospectuses of corporations other than unlisted recreational clubs;

(v) Supervising exchanges, clearing houses and central depositories;

(vi) Regulating the take-over and mergers of companies;

(vii) Regulating all matters relating to unit-trust schemes;

(viii) Licensing and supervising all licensed persons; and

(ix) Ensuring the proper conduct of market institutions and licensed persons.

Prior to 1993, there was no single authority that was entrusted with the responsibility of regulating and systematically developing the Malaysian capital market. Supervisory powers were shared between industry organisations such as the stock exchange and government institutions. To streamline the regulatory structure of the capital markets, the SC was established as a self-funding statutory body with investigative and enforcement powers. Underpinning all these functions is the SC's ultimate responsibility of protecting the investor. Apart from discharging its regulatory duties, the SC is also empowered by statute to encourage and promote the development of the securities and futures markets in Malaysia.

The SC's commitment to strengthening and broadening the domestic capital market is manifested in the Capital Market Masterplan (CMP). Launched in 2001, the CMP seeks to chart the future direction of the Malaysian capital market over the next 10 years. Twenty-two of the 152 recommendations in the CMP relate to developmental initiatives for the debt securities and sukuk market.

Regulation of the Government Securities Market

Dealing in securities, including government securities, is a regulated activity under the Capital Markets and Services Act 2007. Government securities dealers are typically banking institutions licensed and regulated by Bank Negara Malaysia. Besides commercial banks and Islamic banks, investment banks are also participants in the inter-bank market for government securities. The *Malaysian Code of Conduct for Principals and Brokers in the Wholesale Money and Foreign Exchange Markets,* issued by Bank Negara Malaysia, sets out best market practices, principles and standards to be observed in the Malaysian market. The objective is to uphold market integrity and promote the highest level of professionalism.

In addition, Bank Negara Malaysia also issues rules and guidelines governing the issuance, allotment, interest payment, redemption and settlement of scripless securities under Fully Automated System for Issuing/Tendering (FAST) and the Real Time Electronic Transfer of Funds and Securities System (RENTAS). The aim of these guidelines is to provide a uniform set of rules to promote operational efficiency, market integrity and market transparency. Detailed information on the rules and guidelines issued by Bank Negara Malaysia can be obtained from the FAST website.

Regulation of the Corporate Debt Securities and Corporate Sukuk Market

The SC administers the Capital Markets and Services Act 2007 (CMSA), which governs a substantial part of the activities in the domestic corporate debt securities and corporate sukuk market. On 1 July 2000, the SC became the single regulator for the Malaysian corporate debt securities and corporate sukuk market, and moved towards a full disclosure-based regulatory regime with the issuance of the *Guidelines on the Offering of Private Debt Securities*. This was followed by the issuance of the *Guidelines on the Offering of Islamic Securities*. The SC issues guidelines on the issuance of corporate debt securities and corporate sukuk, supervises trading activities in the secondary market, and conducts joint examinations and inspections of investment banks together with Bank Negara Malaysia.

The SC's guidelines and regulations relating to corporate debt securities and corporate sukuk issuance represent part of the Government's initiatives to develop the debt securities and sukuk market in Malaysia, by putting in place an efficient and facilitative issuance process. Towards this end, the regulatory framework for the issuance of corporate debt securities and corporate sukuk has been developed with the following objectives in mind:

- To rationalise a fragmented regulatory structure;
- To expedite and create a facilitative and transparent approval scheme for corporate debt securities and corporate sukuk;
- To impose greater disclosure requirements for better protection of corporate debt securities and corporate sukuk investors and to enhance legal protection afforded to these investors; and
- To enhance secondary market liquidity for corporate debt securities and corporate sukuk.

Over the years, the SC has issued a comprehensive set of guidelines, regulations and practice notes to guide and clarify the requirements for all aspects of a corporate debt securities and corporate sukuk issue. A complete set of these guidelines, regulations and practice notes is listed in Appendix 6 and these are also available on the SC's website.

3

INSTRUMENTS IN THE MALAYSIAN DEBT SECURITIES AND SUKUK MARKET

A well-diversified range of debt securities and sukuk have been issued in the Malaysian market, encompassing both conventional instruments as well as securities issued according to Islamic principles.

Issuers range from the Government, quasi-government agencies, the private sector as well as foreign entities, including multilateral development banks, multilateral financial institutions and foreign corporations. In addition, there are securities issued by Khazanah Nasional Berhad, i.e. the Government's investment arm, and mortgage-backed securities issued by Cagamas Berhad (Cagamas), i.e. the national mortgage corporation and its subsidiary, Cagamas MBS Berhad.

As risk-free instruments, government debt securities typically play an important role in a country's capital market, serving as the benchmark for the pricing of other debt securities in the market. They form the basis for the construction of the yield curve. This is often the case as government securities represent papers of the highest quality, and are consequently used as a benchmark to evaluate other bonds. In addition, government securities are homogenous and available in large quantities, hence the most liquid of all debt instruments.

Corporate debt securities and sukuk, meanwhile, emanate from all sectors of the economy - from the real sectors such as manufacturing, construction, infrastructure, real estate, and power generation to the services sectors such as finance, transport and communication, and retail. As a sign of maturity and growing sophistication in the market, issues are becoming increasingly more structured and tailored to an issuer's particular financing needs. The market has also witnessed an increasing trend in the issuance of asset-backed securities and structured products which are structured to suit the particular needs of investors.

Government and BNM Securities

Malaysian Government Securities (MGS)

MGS are long-term bonds issued by the Government of Malaysia for financing developmental expenditure. MGS are fixed-rate, coupon-bearing bonds with bullet repayment of principal upon maturity. Coupon payments are made semi-annually. MGS are issued via competitive auction by Bank Negara Malaysia on behalf of the Government. Successful bidders are determined according to the lowest yields offered and the coupon rate is fixed at the weighted average yield of successful bids.

An annual calendar that outlines the timing, tenure and issuance method (new issue/ re-opening) will be announced at year-end for subsequent year issuances to enhance market transparency and certainty. An example of such an auction calendar is shown in Appendix 13. The actual issuance size will be announced a week before the issuance date. Typical issuance size ranges from RM1 billion to RM4.5 billion depending on the financing requirement of the Government. The Government is committed to continuously issue 3-year, 5-year, and 10-year MGS as benchmark securities as part of its efforts to develop the benchmark yield curve. These benchmark securities are often re-opened to enlarge the outstanding issue sizes in order to promote market liquidity. In addition, 15-year and 20-year MGS have also been issued to lengthen the benchmark yield curve.

To enable the Government to consistently issue new MGS in all market conditions including periods of fiscal balance or surpluses, the Government may conduct *switch auction* whereby it buys back or redeem a certain pre-determined MGS that is illiquid and replace them with a more liquid benchmark MGS. This also provides flexibility for the Government to manage its liability through the re-profiling of debts, as well as cater to investors' demand for securities of certain duration.

The secondary market for benchmark securities is liquid with average transaction volume varying from RM100 million to RM500 million. A standard transaction is RM5 million per lot. Trades are settled in two business days (T+2) and are quoted on a price basis to two decimal places. Neither stamp duty nor commission is payable on the transfer of securities. For transactions via money brokers, brokerage fees are payable.

Malaysian Government Securities Callable (MGSC)

Since December 2006, Bank Negara Malaysia has introduced callable MGS which provides the Government with the option to redeem the issue at par by giving advance notice of five business days to bondholders. Typically, the issue will be called in whole on specific coupon date(s). However, these characteristics may vary in the future. Issuance of callable MGS allows the Government to better manage its cashflow as well as meet the diverse needs of investors. MGSC are issued via competitive auction by Bank Negara Malaysia on behalf of the Government. Successful bidders are determined according to the lowest yields offered and the coupon rate is fixed at the weighted average yield of successful bids.

Government Investment Issues (GII)

GII are long-term dividend bearing sukuk issued by the Government of Malaysia to finance its developmental expenditure. Similar to MGS, GII are issued through competitive auction by Bank Negara Malaysia on behalf of the Government. GII issuance programmes are pre-announced in the auction calendar with issuance size generally ranging from RM1 billion to RM4.5 billion in original maturities of 3, 5, 7 and 10 years.

GII is based on the *Bai' Al-Inah* principle, part of the sell-and-buy-back concept in Islamic finance. Under this principle, the Government will sell a specific nominal value of its assets and subsequently repurchase these assets at their nominal values plus a profit through a tender process. The profit rate is based on the weighted average yield of the successful bids in the auction. The nominal value in buying back the assets will be settled at a specific future date or upon maturity, while the profits will be distributed half-yearly. The obligation of the Government to settle the purchase price is securitised in the form of GII issued to investors. Upon maturity, the Government will redeem the GII and pay the nominal value of the securities to the GII holders. GII are actively traded in the Islamic Inter-bank Money Market.

Malaysian Treasury Bills (MTB)

MTB are short-term securities issued by the Government of Malaysia to raise short-term funds for its working capital. MTB are sold at a discount through competitive auctions, facilitated by Bank Negara Malaysia, with original maturities of 3 months, 6 months and 1 year. These securities are redeemed at par.

MTB are issued on a weekly basis and are auctioned one day before the day of issuance. Successful bidders will be determined according to the most competitive yield tendered. The auction day for MTB is usually on Thursday and issued on Friday.

MTB are tradable on a yield basis (discounted rate) based on bands of remaining tenure (e.g. Band 4 = 68 to 91 days to maturity). The standard trading amount is RM5 million. MTB are actively traded in the secondary market.

Malaysian Islamic Treasury Bills (MITB)

MITB are short-term securities issued by the Government of Malaysia based on Islamic principles. MITB are usually issued on a weekly basis, with original maturities of 1 year. The auction for MITB is closed and processed on Thursday with the result of successful bidders known on the same day. The issuance however, will be on Friday. Both conventional and Islamic institutions buy and trade in MITB.

MITB are structured based on the *Bai' Al-Inah* principle, part of the sell-and-buy-back concept. Bank Negara Malaysia, on behalf of the Government, will sell the identified government assets on a competitive tender basis to form the underlying transaction of the deal. Allotment will be based on the highest price tendered (or lowest yield). The actual price of the MITB will be determined after the profit element has been imputed (discount factor). Successful bidders will pay cash to the Government, and subsequently sell back the assets to the Government at par based on credit terms. In return, the Government will issue MITB to the bidders to represent the debt created.

MITB are tradable on a yield basis (discount rate) based on bands of remaining tenure (e.g. Band 4 = 68 to 91 days to maturity). The standard trading amount is RM5 million, and MITB are actively traded based on the *Bai al-Dayn* (debt trading) principle in the secondary market.

Sukuk Bank Negara Malaysia *Ijarah* (SBNMI)

SBNMI are issued based on the *Al-Ijarah* or sale-and-lease-back concept, a structure that is widely used in the Middle East. A special-purpose vehicle (SPV) has been established to issue the sukuk *Ijarah*.

Bank Negara Monetary Notes (BNMN)

BNMN, which replaced the Bank Negara Bills and Bank Negara Negotiable Notes, are issued for the purpose of managing liquidity in both the conventional and Islamic financial markets. BNMN serves to increase the efficiency in absorbing excess liquidity in the financial system and thus impacting the domestic financial market conditions. BNMN is issued based on either conventional or Islamic principles and can be on discount-based, or coupon-based. The maximum maturity of BNMN is three years.

Floating Rate Bank Negara Monetary Notes (BNMNF)

BNMNF are instruments used for implementing monetary policy and in managing liquidity in the financial market. Floating rate BNMN issuance is conducted through competitive Dutch auction (uniform price) via the Principal Dealer network and the market participant will bid the tender based on spread.

Merdeka Savings Bonds

These are scripless bonds structured on Shariah principles. These bonds represent an additional savings instrument for Malaysian citizens who are 56 years and above. In addition, Malaysian citizens who have retired on medical grounds, regardless of their age, will also be eligible to invest in these bonds.

The minimum investment in these bonds is RM1,000 with a maximum of RM50,000 per investor. Allocation of these bonds is based on a first-come first-serve basis. Profit payments will be made on a monthly basis through the bondholders' accounts with their agent banks.

Sukuk Simpanan Rakyat

Sukuk Simpanan Rakyat, issued on a scripless basis by Bank Negara Malaysia on behalf of the Government, is an investment instrument for Malaysian citizens who are

21 years and above. The minimum investment amount is RM1,000 with a maximum of RM50,000 per investor. Allocation of these sukuk is based on a first-come first-served basis. Profit payment will be made on a quarterly basis through the sukuk holders' account with their agent banks.

Corporate or Private Debt Securities

Khazanah Bonds

Khazanah bonds are issued by Khazanah Nasional Berhad, the investment holding arm of the Government of Malaysia. Khazanah bonds are usually zero-coupon papers issued under the Islamic principle of *Murabahah,* with typical tenures of 3, 5, 7 and 10 years. These bonds carry bullet repayments of their face values upon maturity.

Cagamas Papers

Cagamas papers are unsecured bearer bonds issued by Cagamas Berhad, the national mortgage corporation established in 1986 to promote the secondary mortgage market in Malaysia. It issues debt securities and sukuk to finance the purchase of housing loans and other consumer receivables from financial institutions, selected corporations and the Government. Cagamas is the second largest issuer of securities after the Government of Malaysia.

Various types of Cagamas papers are available in the market:

Cagamas Bonds (CAGB)

(i) Fixed Rate Bonds
Fixed rate bonds have tenures of up to 10 years and carry a fixed coupon rate that is determined at the point of issuance. The mode of issuance is via tender, direct placement, book building or on a bought-deal basis. Interest on these bonds is paid on a half-yearly basis. The bonds will be redeemed at nominal value, together with the interest due, upon maturity.

(ii) Floating Rate Bonds
Floating rate bonds have tenures of up to 10 years with an adjustable interest rate pegged to the 3-month or 6-month KLIBOR. Interest is paid at 3 or 6

monthly intervals. These bonds will be redeemed at face value, together with the interest due, at maturity.

Cagamas Notes (CAGN)

Cagamas Notes are short-term instruments with maturities of 1 to 12 months issued at either a discount from face value where the notes are redeemable at their nominal value upon maturity, or as interest bearing notes where interest is paid on a semi-annual basis or such other periodic basis as determined by Cagamas.

CAGABAIS (formerly known as SAC, or Sanadat ABBA Cagamas)

These sukuk are issued under the Islamic principle of *Bai' Bithaman Ajil* to finance the purchase of Islamic house financing debts and Islamic hire purchase debts. Dividends on these sukuk are payable semi-annually. CAGABAIS are redeemable at par together with the dividend due on maturity date.

Sanadat Mudharabah Cagamas (SMC)

Sanadat Mudharabah Cagamas are sukuk issued under the Islamic principle of *Mudharabah* (profit-sharing) to finance the purchase of Islamic housing loans granted on the basis of *Bai' Bithaman Ajil* and the purchase of Islamic hire purchase financing granted under the principle of *Ijarah Thumma Al-Bai*. Profit, based on a pre-determined profit sharing ratio, is payable semi-annually. These securities are redeemed at par on maturity date unless there is principal diminution in value.

Notes Issuance Facility (NIF)

Under this facility, a borrower can issue short-term notes of less than 1 year's maturity, with the common tenures being 1, 3 and 6 months. The tenure of the facility typically ranges from 3 to 5 years. The notes are issued in specific denominations and sold at a discount to their face value. The total amount of outstanding notes is capped by the approved facility amount. The notes are subscribed by participating investors, normally financial institutions. Upon maturity, the notes are either redeemed at par or the principal is rolled over with the issuance of new notes. In the latter scenario, the discounted interest is paid to the noteholders at the time of the rollover.

NIF is a low cost substitute for syndicated bank loans since its rates are pegged to the Kuala Lumpur Inter-bank Offer Rate (KLIBOR) and not the base lending rate (BLR), as in the case of bank loans. These financing instruments often offer a cheaper alternative to raising funds than bank loans.

Revolving Underwritten Facility (RUF) and Revolving Underwritten Notes Issuance Facility (RUNIF)

When the NIF includes underwriting services, the arrangement takes the form of a RUF or RUNIF. In the event the notes are undersubscribed, the underwriters are committed to take up the unsold portion at a pre-determined rate. These facilities, which are continuously renewed or revolved, provide borrowers with long-term, continuous access to short-term money that is underwritten by banks at fixed margins.

Commercial Papers (CPs)

Short-term private debt securities (or PDS) are issued in the form of revolving underwriting facilities (or RUFs) and notes-issuance facilities (or NIFs). These issues are normally for up to one year on a discount-rate basis with bullet repayment of face value upon maturity. In practice, CPs are often rolled over upon maturity until the expiry of the issue programme. Invariably, as the risks of investing are higher, CP yields are usually higher than those of certificates of deposit and bankers' acceptances, depending on the ratings of these papers. Most investors hold CPs until maturity as these are short term in nature.

Floating-rate Notes (FRNs)

These are debt securities with variable (floating) interest rates that are linked to those in the money markets. Their tenures range from 3 to 7 years. FRNs are usually pegged at a fixed spread to the interbank rates corresponding to the maturity periods of the notes.

In contrast to a coupon rate that is fixed for the entire life of the bonds, the coupon rate for FRNs is pegged to an agreed benchmark. It is periodically reset at a stated margin over a reference rate, usually KLIBOR, e.g. the 6-month KLIBOR for semi-annual coupons, or 12-month KLIBOR for coupons payable annually. The coupon on FRNs typically rises as the reference rate increases, and falls as the reference rate declines.

FRN investors are usually financial institutions with floating rate liabilities. Other investors use FRNs as substitutes for money market instruments and as hedges against rising interest rates. If a scenario of rising interest rates is expected, frequent resets of FRNs should provide increasing returns.

Medium-term Notes (MTNs)

As the name implies, MTNs are debt papers issued on a medium-term basis, with tenures of more than 1 year and redeemable at par on maturity. They may carry fixed or floating rate coupons. Islamic MTNs provide semi-annual dividends depending on the structure used.

This type of instrument was introduced to bridge the gap between short-term CPs and long-term corporate bonds. They differ from corporate bonds in that they are sold in relatively small amounts, or either on a continuous or on an intermittent basis. All else being equal, the coupon rate on MTNs will be higher than for other short-term notes, reflective of the longer duration of these papers.

This type of debt programme is used by a company to obtain a constant stream of cashflow from its debt issuance. It allows a company to tailor its debt issuance to meet its financing needs, only tapping the market for funds as and when required. MTNs allow a company to register with the SC only once, instead of for every issue with differing maturities.

Straight Bonds

These are bonds with a fixed coupon rate, maturing on a date fixed at the time of issue. They are called "plain vanillas" in some debt markets, as these bonds do not have any enhancement like warrants attached to them, or additional features such as put or call options, and tend to carry relatively higher coupon rates. Coupon or interest payments are made either semi-annually or annually. Upon maturity, the principal or par value is paid to the bond holder.

Asset-backed Securities (ABS)

ABS are securities backed by assets. Among others, these assets could be mortgages, loans or receivables. Cagamas is the pioneer in local residential mortgage-backed securities. ABS is also issued based on Islamic principles in Malaysia. Apart from mortgage-backed securities (MBS), other examples of ABS are collateralised loan obligations and securitisation of receivables.

Convertible Bonds

Convertible bonds are fixed rate securities that grant the bondholders the right to convert the bonds into a specific number of the issuer's common shares at a pre-determined conversion rate and price. This feature makes convertible bonds more desirable to prospective purchasers seeking a combination of equity and fixed income features. As the equity option is exercised by converting the bond into the underlying equity, no new money is required to subscribe for the shares. When a convertible bond is exercised, the investor loses the income from and future redemption value of the bond. However, the investor gains the dividend stream and future capital appreciation of the shares, together with other rights and obligations as common shareholders. Convertibles appeal to investors who seek both the cashflow and safety of a bond while still enjoying the prospects of capital appreciation should the company's ordinary shares perform well.

Bonds with Warrants

Fixed rate bonds are commonly issued with detachable warrants (or transferable subscription rights). A warrant is a type of deferred rights issue that gives the holder the option to purchase a specified number of the issuer's shares at a set price (exercise price) within a certain time period (exercise period). The exercise price of a warrant is pre-determined and is the price that would have to be paid by a warrant holder to convert his warrants into ordinary shares. The warrants are usually detached from the bonds and sold to a different group of investors. Both instruments are then traded separately.

Investors find it an attractive option to buy shares at a pre-determined price, although at the outset the cost of the warrant is effectively subsidising the issuer's borrowing cost. Bonds with warrants allow listed companies to raise capital, initially in the form of debt and subsequently in the form of equity, at a premium to its current share price and at a lower interest cost than would be achievable through a straight bond issue. When the warrants are exercised, new money is used to subscribe for the shares, increasing the borrower's capitalisation. This is in contrast to a convertible bond where an exchange of shares for bonds takes place.

As a warrant entitles the bondholder to an option to purchase a specified amount of the company's shares, bonds issued with warrants have low coupon rates to compensate the issuers. Issuers of corporate bonds, therefore, prefer to issue bonds with warrants as this enables them to raise cheap funds.

In addition, there are also stapled securities issued in the market. These are debt securities issued together with preference shares which enables the issuer to pass on its tax credit to the holders of the papers.

Zero Coupon Bonds

Zero coupon bonds are fixed income securities sold at a discount; they pay no periodic interest or coupon, and have a final redemption value equal to par. The difference between the purchase price and the redemption value equals the return on the investment.

Since they do not pay interest, zero coupon bonds eliminate reinvestment risk as the reinvestment of coupon is built into the yield. This is beneficial in markets with declining interest rates. When interest rates are rising, however, the investors will not be able to reinvest their income at higher reinvestment rates. Therefore, zero coupon bonds are the most sensitive to interest rate variations. They make ideal investments for retirement planning since the value to be received upon maturity is known. Also, funds are not blocked off until maturity, as investors are free to trade the bonds and, if necessary, liquidate the bonds for cash.

Debt Securities Listed and Traded on Bursa Malaysia

Debt securities listed and traded on the Exchange, Bursa Malaysia, are also known as loan stocks. There are 3 types of loan stocks:

Redeemable Convertible Loan Stocks

These are debt securities that give the holders the right to convert the loan stocks into new ordinary shares during a specified period, at a pre-determined conversion rate and price. The issuer has the obligation to redeem the loan stocks at par upon maturity, together with interest if the loan stocks have not been converted into shares.

Irredeemable Convertible Loan Stocks

These are debt securities that confer the holders the right to convert the stocks into new ordinary shares. Nonetheless, the issuer will not redeem the stocks and such stocks will automatically be converted into ordinary shares on maturity.

Redeemable Non-convertible Loan Stocks

These are debt securities that cannot be converted into ordinary shares. The company is obligated to redeem the loan stocks upon maturity.

Listed Debt Securities and Sukuk under Exempt Regime

In an effort to promote the Malaysian debt securities and sukuk market whilst enhancing the breadth and depth of investment options on the Malaysian capital market, debt securities and sukuk can now be listed on Bursa Malaysia under a new exempt regime by both listed and non-listed issuers. This framework is applicable to debt securities and sukuk that are issued, offered or subscribed in accordance with section 229(1) and section 230(1) of the CMSA. This regime specially caters for issuers who intend to list their debt securities and sukuk for listing status and profiling purpose. The targeted group of investors for these securities are sophisticated investors and not retail investors. Hence, the listing of these instruments will offer institutions or high net worth individuals an alternative investment product with enhanced transparency. By an exempt regime, it means that the debt securities or sukuk which are listed on the Exchange will not be quoted nor traded on the Exchange. The debt securities or sukuk listed may be denominated in foreign currencies but must have original maturity of more than one year.

Listing under the exempt regime currently comprise of a USD3 billion debt securities issuance and a USD1.5 billion global sukuk issuance by Petroliam Nasional Berhad (Petronas) as well as all the outstanding debt securities and sukuk amounting to RM6 billion and RM4 billion respectively issued by Cagamas MBS Berhad (Cagamas MBS) under its five residential mortgage-backed securitisation transactions.

Futures Contracts

Futures contracts are available in the Malaysian market to enable investors to hedge short-term or long-term interest rate risks of holding debt securities or any investment in the Malaysian capital market. The futures market for MGS and the Kuala Lumpur Interbank Offer Rate (KLIBOR) is operated by Bursa Malaysia Derivatives Berhad which is regulated under the CMSA and falls under the supervision of the SC. Trading on the Exchange offers the security of trading with a regulated entity that is equipped with the necessary infrastructure and governed by regulations comparable to that of established markets worldwide.

The derivative instruments listed and traded on Bursa Malaysia Derivatives Berhad are:

3-month KLIBOR Futures Contract

Underlying instrument is the ringgit interbank time deposit in the wholesale money market with 3-month maturity on a 360-day year. Quarterly cycle contract months are March, June, September and December up to five years ahead and two serial months.

3-year MGS Futures Contract

Underlying instrument is the 3-year MGS. Contract months are four nearest quarterly cycle months (March, June, September and December).

5-year MGS Futures Contract

Underlying instrument is the 5-year MGS. Contract months are four nearest quarterly cycle months (March, June, September and December).

10-year MGS Futures Contract

Underlying instrument is the 10-year MGS. Contract months are four nearest quarterly cycle months (March, June, September and December).

The 3-year, 5-year and 10-year MGS contracts carry a hypothetical coupon rate of 6%, and the yield is derived from the weighted yields of all eligible MGS in the basket. The weightage is announced by the Exchange. Notional amount per MGS Futures contract is RM100,000. Eligible MGS must meet the specifications of the respective bond derivatives contracts. Upon maturity, all bond derivatives are settled on cash terms using a final settlement value. The final settlement price is calculated from the final yield in accordance with a standard formula rounded to two decimal places.

Investors who wish to hedge their interest rate risks can also use the following OTC derivative transactions with onshore banking institutions:
(i) Interest rate swaps;
(ii) Interest rate swaptions, caps and floors; and
(iii) Bond options.

Non-resident investors may hedge exchange rate risks from investments through forward foreign exchange or foreign exchange derivatives such as currency options and cross currency swap with any licensed onshore banking institutions.

Islamic Profit Rate Swap

Islamic profit rate swaps are also available in the Malaysian market for an investor who wishes to execute hedging under Islamic principles. An Islamic profit rate swap is an agreement to exchange profit rates between a fixed rate party and a floating rate party or vice versa implemented through the execution of a series of underlying contracts to trade certain assets under the Shariah contracts. Each party's payment obligation is computed using a different pricing formula. In Islamic profit rate swap, the notional principal is never exchanged as it is netted off using the Islamic principle of *Muqasah*.

4

SUKUK

Understanding Sukuk

Malaysia has emerged as the largest Islamic securities or sukuk market in the world, with RM211 billion or 61.4% of all outstanding sukuk worldwide originating from Malaysia as at end-2008. In its simplest form, sukuk are certificates of equal value that represent an undivided interest (proportional to the investor's interest) in the ownership of an underlying asset (both tangible and intangible), usufruct, services or investments in particular projects or special investment activities. Through this concept, sukuk enjoy the benefit of being backed by assets, thereby affording the sukuk holder or investor a level of protection which may not be available from conventional debt securities. Furthermore, unlike conventional debt securities that mirror debts or loans on which interest is paid, sukuk can be structured based on innovative applications of Islamic principles and concepts. Nonetheless, sukuk share some similarities with conventional debt securities, in that they are similarly structured based on assets that generate revenue. The underlying revenue from these assets represents the source of income for the payment of profit on the sukuk.

The Legality of Sukuk

Sukuk represent ownership claims on a pool of assets, or rights to receivables or participation. The various transaction contracts that form the genesis for a sukuk issue have different legal implications for investors. Sukuk investors should, therefore, be fully apprised and knowledgeable on their rights and obligations under the various Islamic concepts and principles.

(i) Rights to underlying asset and its cashflow

In the case of a sukuk that represents ownership of assets, its usufruct or services (the underlying asset), the claim embodied in the sukuk is not just a claim on the underlying asset used in the sukuk transaction, but also the right to the cashflow and proceeds from the sale of the asset. For example, in sukuk *Ijarah*, the sukuk is akin to trust certificates establishing undivided ownership of the leased asset and the right to the cashflow arising from it.

(ii) Rights to cashflow from the contract of exchange but not the asset

In the case of a sukuk issued as evidence of indebtedness arising from the sale of asset-based on contracts of exchange other than *Ijarah*, such as those originating from *Bai' Bithaman Ajil*, *Murabahah* and *Istisna'*, the claim is on the obligations stemming from the applied contract of exchange, and not ownership of the physical asset, as ownership has been transferred to the obligor.

(iii) Rights to undivided interest in specific investment

In the case of special investment activities funded through *Musyarakah* or *Mudharabah*, the sukuk represent the holders' undivided interests in the specific investments. Sukuk *Musyarakah* is used to raise funds for projects on the basis of partnership contracts. The sukuk *Musyarakah* holders or investors then become the owners of the project, in proportion to their respective shares. Profits are distributed according to a pre-agreed proportion while losses are pro-rated according to their equity share. Each sukuk *Mudharabah* holder or investor, on the other hand, holds equal value in the *Mudharabah* equity. Profits will be shared on a pre-agreed ratio between the *Mudharabah* investors and the sukuk shared equally among the *Mudharabah* investors.

The Malaysian Sukuk Market

The Malaysian sukuk market has grown exponentially in recent years, with an average annual growth rate of 21% between 2001 and 2008, to surpass the outstanding amount of conventional debt securities issued in the domestic market. In 2008, the amount of corporate sukuk issued exceeded the value of outstanding corporate bonds.

The sukuk market has been buoyed by demand from investors in both conventional and Islamic securities. Unlike securities issued under a conventional basis, where the investor base is confined to only investors in the conventional bond market, sukuk has access to a larger pool of investors from both sides of the investing worlds – a captive investor base such as Islamic pension funds and Islamic insurance companies, which can only invest in *Shariah*-compliant instruments, and those that traditionally invest in conventional bonds but are now seeking diversification and a greater range of instruments to invest in, irrespective of whether the instrument is *Shariah*-compliant.

With the various incentives offered, the cost of issuing sukuk is also cheaper than issuing conventional bonds. For instance, all expenses incurred in the issuance of sukuk are tax deductible until Year of Assessment 2010 while all expenses incurred by an SPV in issuing sukuk enjoy the special privilege of being tax-exempt.

The Malaysian Islamic securities market continues to embrace innovative elements, as underlined by the launch of sukuk using concepts such as *Mudharabah*, *Musyarakah* and *Ijarah*. The three major types of sukuk that dominate the Malaysian Islamic securities market, in terms of approved value, are *Musyarakah*, *Ijarah* and *Istisna'*. Even so, sukuk based on the *Murabahah* and BBA principles remain popular. The higher degree of dynamism in the market is reflected by the development of sophisticated Islamic financial products that are now structured based on multiple *Shariah* concepts.

Various steps have been taken to develop the Malaysian Islamic securities market. To ensure all Islamic capital market products in Malaysia are in compliance with *Shariah* principles, the SC established the Shariah Advisory Council (SAC) in 1996. The SAC consists of prominent *Shariah* scholars, jurists and market practitioners, whose role is to advise the SC on matters relating to the Islamic capital market, and to provide *Shariah* guidance on Islamic capital market transactions and activities. The SAC has made pronouncements on acceptable *Shariah* concepts and principles to be used for the structuring and trading of Islamic securities.

The strategic initiative to promote Malaysia as an international Islamic financial centre and to become a centre of sukuk origination is expected to provide further impetus to the development of an increasingly vibrant and progressive domestic bond market. The MIFC Initiative was launched by the Government in August 2006 to maintain the country's edge in the area of Islamic finance; it aims to bring the nation to the next level of Islamic financial development, fortifying Malaysia's position as a preferred global centre for issuing, trading and investing in Islamic securities. The MIFC Initiative has received global recognition; at the Second Annual London Sukuk Summit Awards of Excellence, the MIFC Initiative was voted the *Best International Finance Centre 2008* for its efforts in developing the Islamic financial industry. The summit is endorsed by the United Kingdom (UK) Treasury, UK Trade and Investment, City of London Corporation and the London Stock Exchange. The Government's unwavering support for the MIFC Initiative has resulted in an array of ground-breaking measures that have been designed to provide operational flexibility, cost efficiency and a conducive environment for Islamic-financed businesses in international currencies.

The Islamic capital market in Malaysia has benefited from key policy initiatives and the establishment of the necessary infrastructure in terms of strong regulatory framework, participation of domestic and international intermediaries, and innovation in a wide range of Islamic financial products. In particular, the SC's 10-year Capital Market Masterplan (2001-2010) provides the broad strategic position and future direction for the Islamic capital market.

The Government is not only committed to supporting the development and growth of the Malaysian sukuk market through facilitating the administrative, infrastructure and fiscal policies; it is also an issuer of Islamic securities. In 2002, the Government issued the first global sovereign sukuk, which has since become an international benchmark for the issuance of global sukuk.

With the increasing maturity of the domestic debt securities and sukuk market, significant steps have been taken to liberalise the market - to allow foreign corporations, multinational corporations and multilateral agencies to raise funds in the Malaysian debt securities and sukuk market. There is no restriction on funds raised in Malaysia to finance foreign investment activities outside the country. The inaugural ringgit-denominated sukuk was issued by International Finance Corporation (the investment arm of the IBRD World Bank) in 2004, followed by the IBRD World Bank in 2005. In October 2006, the market was further liberalised to allow foreign multinational corporations to issue sukuk in the domestic market. There have also been issues by foreign owned corporations in Malaysia, such as AEON Credit Services, the first Japanese corporate to launch a sukuk, i.e. a 7-year RM400 million bank-backed conventional and Islamic CP/MTN programme under the principle of *Musyarakah*. AEON Credit Services was also the first consumer-financing company to issue sukuk in Malaysia. This was followed by TESCO Stores (Malaysia) Sdn Bhd's RM3.5 billion conventional and Islamic notes programme. The first issuance under this programme comprised a RM700 million sukuk *Musyarakah,* and represented the first sukuk issuance by a British-owned multinational corporation in Malaysia.

In 2007, Khazanah Nasional Berhad, via Cherating Capital, issued a benchmark deal reported as the world's largest exchangeable sukuk, and the largest equity-linked deal out of Malaysia. The issue, which had raised USD850 million, had been priced at the lower end of the scale – LIBOR swap minus 90 basis points. There were overwhelming global demand from both Islamic and conventional investors for non-ringgit-denominated exchangeable sukuk; the order book was covered more than 13 times, with a sizeable demand of USD7.8 billion stemming from over 200 international investors.

The success of sukuk issuance in the Malaysian market and worldwide testifies to the viability and future success of the Islamic securities market. Indeed, Malaysia has proven itself as a centre of choice for foreign corporations to issue sukuk as well as to invest in these papers, as it offers one of the most diverse (in terms of types of securities, tenures, asset classes, structures, issuers and risk profiles), innovative and sophisticated array of investment choices in the world.

Malaysia has, irrefutably, taken the lead in developing and innovating new Islamic securities structures. As a pioneer in the Islamic capital market, Malaysia has set standards in sukuk structures as well as regulatory and legal frameworks, and also in managing the risks involved; the country has provided many global "market firsts" vis-à-vis instruments and initiatives. A list of landmark sukuk issuances is shown in Appendix 15.

Malaysia's Bedrock in Islamic Finance

Malaysia' s strength in Islamic finance is firmly grounded by the following factors:

- More than 30 years' industry-level experience in Islamic finance;

- Full range of service providers: 17 Islamic banks, of which 6 are foreign Islamic financial institutions. There are also several Islamic windows for conventional banking institutions; these can act as lead arrangers for Islamic financial instruments;

- 11 takaful and Re-takaful operators
- Established Islamic capital market, with 149 Islamic unit-trust funds launched by end-December 2008. At the same time, about 87% of Bursa Malaysia's counters were *Shariah*-compliant while over 47% of all long-term papers approved by the SC were sukuk;
- Established and comprehensive regulatory and *Shariah*-governance framework in accordance with best practices, together with a neutral tax policy;
- Critical mass and extensive range of Islamic products and services;
- Talent-development infrastructure; and
- Active secondary market trading in the Islamic money and capital markets, equipped with cutting-edge technology.

Approved *Shariah* Concepts and Principles

Islamic securities are securities issued pursuant to any *Shariah* principles and concepts approved by the SC's Shariah Advisory Council or SAC. The approved *Shariah* concepts and principles for the purpose of structuring, documenting and trading of Islamic securities are:

(i) Primary principles

Profit and Loss-sharing (*Musyarakah*)
A partnership arrangement between two parties or more to finance a business venture, where all parties contribute capital either in the form of cash or in kind for the purpose of financing the business venture. Any profit derived from the venture will be distributed based on a pre-agreed profit-sharing ratio, but a loss will be shared on the basis of equity participation.

Profit-sharing (*Mudharabah*)

A contract between 2 parties to finance a business venture. The parties are a *rabb al-mal* or investor, who solely provides the capital; and a *mudharib* or entrepreneur, who solely manages the project. If the venture is profitable, the profit will be distributed based on a pre-agreed ratio. In the event of a business loss, it shall be borne solely by the provider of the capital.

Leasing (*Ijarah*)

A *manfaah* (usufruct) type of contract, where a lessor (owner) leases out an asset or equipment to its client at an agreed rental fee and pre-determined lease period upon the *'aqad* (contract). The ownership of the leased equipment remains in the hands of the lessor.

Deferred-payment Sale (*Bai' Bithaman Ajil* or BBA)

A contract that refers to the sale and purchase transaction for the financing of an asset on a deferred and instalment basis, with a pre-agreed payment period. The sale price will include a profit margin.

Sale with Immediate Repurchase (*Bai' 'Inah*)

A contract that involves the sale and buy-back of an asset by a seller. A seller will dispose of the asset to a buyer on a cash basis. The seller will immediately buy back the same asset on a deferred-payment basis, at a price that is higher than the cash price. It can also be applied when a seller sells the asset to a buyer on a deferred basis. The seller will later buy back the same asset on a cash basis, at lower than the deferred price.

Supply Sale (*Bai' Istijrar*)

A contract between a client and a supplier, where the supplier agrees to supply a particular product on an ongoing basis, e.g. monthly, at an agreed price and on the basis of an agreed mode of payment.

Advance Purchase (*Bai' Salam*)

A sale and purchase contract, where the payment is made in cash at the point of contract, but the delivery of the asset purchased will be deferred to a pre-determined date.

Sale and Repurchase (*Bai' Wafa'*)
A contract with the condition that when the seller pays back the price of goods sold, the buyer returns the goods to the seller.

Lease to Purchase (*Ijarah Thumma Bai'*)
A contract that begins with an *Ijarah* contract, for the purpose of renting out a lessor's asset to a lessee. At the end of the lease period, the lessee will purchase the asset at an agreed price from the lessor, by executing a purchase (*Bai'*) contract.

Purchase Order (*Istisna'*)
A purchase contract for an asset, where a buyer will place an order to purchase the asset that will be delivered in the future. In other words, the buyer will require a seller or a contractor to deliver or construct the asset that will be completed in the future, according to the specifications in the sale and purchase contract. Both parties in the contract will decide on the sale and purchase prices as they wish, and settlement can be delayed or arranged based on the schedule of work completed.

Cost-plus Sale (*Murabahah*)
A contract that refers to the sale and purchase transaction for the financing of an asset, where the cost and profit margin (mark-up) are made known and agreed to by all parties involved. The settlement of the purchase price can be either on a deferred lump-sum basis or an instalment basis, which will be specified in the agreement.

Benevolent Loan (*Qardh Hasan*)
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 sum of repayment must be equivalent to the amount borrowed. It is however legitimate for a borrower to pay more than the amount borrowed, as long as it is not stated or agreed at the point of contract.

(ii) Supplementary Concepts and Principles

Debt Trading (*Bai' Dayn*)
A transaction that involves the sale and purchase of securities or debt certificates that conform with *Shariah*. Securities or debt certificates will be issued by a debtor to a creditor, as evidence of indebtedness. The SAC has approved the principle of *Bai' Dayn* as one of the concepts for the development of Islamic capital market instruments.

Open-bidding Trading (*Bai' Muzayadah*)
An action by a person to sell his asset in the open market through a bidding process among potential buyers. The asset for sale will be awarded to the person who has offered the highest bid/price. This is also known as a sale and purchase transaction based on tender.

Guarantee (*Kafalah*)
A contract of guarantee, where a guarantor underwrites any claim and obligation that should be fulfilled by the owner of the asset. This concept is also applicable to a guarantee provided on a debt transaction in the event the debtor fails to fulfill their debt obligation. The same definition can be applied to *Dhaman*.

Ownership Right (*Hak Tamalluk*)
An asset in the form of tradable ownership rights as classified by *Shariah.*

Gift (*Hibah*)
A gift presented to a person on a voluntary basis.

Remittance (*Hiwalah*)
A contract that allows a debtor to transfer his debt obligations to a third party.

Rebate (*Ibra'*)
An act by a person to withdraw his right to collect payment from a person, who has the obligation to repay the amount borrowed from the former.

Pre-agreed Contract (*Ittifaq Dhimni*)
A sale and re-purchase of the underlying asset, the prices of which are agreed upon by the parties prior to the completion of the contract. This is an external agreement that must be reached before the contract can be concluded, to allow the bidding process (*Bai' al-Muzayadah*) to take place.

Collateral (*Rahn*)
An act where a valuable asset is placed as collateral for a debt. The collateral will be utilised to settle the debt when the debtor defaults.

Securities (*Sukuk*)
A financial document on certificate which represents the value of an asset evidencing an undivided pro rata ownership of an underlying asset; a capital market financial instrument tradable in the secondary market.

Fee (*Ujrah*)
A financial charge for the utilisation of services or *manfaat*. In the context of today's economy, it can be in the form of a salary, wage, allowance or commission.

Agency (*Wakalah*)
A contract that gives power to a person to nominate another to act on their behalf as long as they are alive, based on the agreed terms and conditions.

5

ISSUING DEBT SECURITIES AND SUKUK IN MALAYSIA

The SC's guidelines and framework for the issuance of corporate debt securities and sukuk serve to expedite and create a facilitative as well as transparent approval scheme for corporate issuances; they impose greater disclosure requirements and enhance legal protection for investors. In addition, all issues in Malaysia must comply with the relevant provisions of the CMSA in relation to the issuance, subscription and trading of corporate debt securities and sukuk in this country.

An important development in the domestic corporate debt securities and sukuk market is the move from merit-based regulation to a disclosure-based regulatory (DBR) regime, which had been effected by the SC in phases. Essentially, corporations that intend to issue PDS or sukuk may do so under the DBR regime, as long as the transparency requirements set out in the SC's guidelines on PDS and Islamic securities are complied with.

Key guidelines that have been issued to streamline the issuance process for the corporate debt securities and sukuk market include the following:

- **Guidelines on the Offering of Private Debt Securities**

  The *Guidelines on the Offering of Private Debt Securities* (PDS Guidelines) govern all issues of, offers for subscription or purchases of, or invitations to subscribe for or purchase, private debt securities that require the SC's approval under Section 212 of the CMSA. The PDS Guidelines mark the accelerated transition towards a disclosure-based system of regulation, which offers potential issuers greater flexibility in terms of time and cost savings in structuring their funding requirements.

Under these guidelines, speedy approval of PDS issues can be expected as issuers and their advisors need only comply with the transparency requirements laid out in the said guidelines, by submitting a declaration to the SC that the requirements under the PDS Guidelines have been complied with. Written approval from the SC will be given within a period of not more than 14 working days from the date of receipt of such declaration.

There has also been significant liberalisation of the specific requirements for PDS issues, such as dispensing with the minimum credit rating and waiving the mandatory underwriting requirement. Issuers will be able to enjoy greater savings in terms of time and cost. Investor protection is not compromised as there are stringent requirements for the disclosure of the risks in relation to any PDS issue, with stringent requirements imposed on borrowers and trustees.

The PDS Guidelines have provided greater transparency to market participants as it highlights the circumstances under which a PDS issuance will be allowed or disallowed.

- **Guidelines on the Offering of Islamic Securities**

In addition to the issuance requirements stated in the PDS Guidelines, the Guidelines on the Offering of Islamic Securities (IS Guidelines) stipulate the additional Shariah criteria that must be met with regard to all issues, offers or invitations of Islamic securities that fall under the ambit of the CMSA. Where any *Shariah* principle or concept applied in the structuring of an issue, offer or invitation is based on a concept or principle other than that stated in the IS Guidelines, the approval of the SAC must be obtained prior to the submission of any declaration and information to the SC.

- **Guidelines on the Offering of Asset-backed Securities**

The SC's *Guidelines on the Offering of Asset-backed Securities* (ABS Guidelines) govern all issues of, offers for subscription or purchase, or invitations to subscribe for or purchase asset-backed securities (ABS) that require the SC's approval. ABS issues must also comply with the criteria under the PDS Guidelines or the IS Guidelines, where applicable. ABS, however, excludes all debt securities or Islamic securities that are capable of being converted into equity, and whether redeemable or otherwise, such as exchangeable bonds and PDS or sukuk with attached warrants.

Only assets that fulfil the following criteria can be securitised under the ABS Guidelines:

(i) The assets must generate cashflow;

(ii) The originator has a valid and enforceable interest in the assets and their cashflow prior to any securitisation transaction;

(iii) There are no impediments (contractual or otherwise) that prevent the effective transfer of the assets or the rights in relation to such assets from an originator to an SPV. This includes obtaining the necessary regulatory or contractual consent to effect the transfer of such assets from an originator to an SPV, and not omitting any act that enables a debtor of the originator to exercise the right to set-off in relation to such assets;

(iv) The assets are transferred at fair value;

(v) No trust or third party's interest appears to exist in competition with an originator's interests in the assets; and

(vi) Where the interest of an originator in the assets is as a chargee, the charge must have been created for a period of more than six months before the transfer.

In addition, where the issue, offer or invitation in relation to the ABS is Islamic in nature, the assets that are the subject of the securitisation transaction must be acceptable in accordance with *Shariah* principles.

In an ABS transaction, it is important that a true sale is achieved. In this regard, the ABS Guidelines have also spelt out the "true sale" criteria.

- **Guidelines on Minimum Content Requirements for Trust Deeds**

  A trust deed that complies with the *Guidelines on Minimum Content Requirements* for *Trust Deeds* is required, irrespective of whether the PDS issue is by a public or private limited company.

  These guidelines set out the minimum content of trust deeds entered into between a borrower and a trustee in relation to a PDS issue. Under these guidelines, the key areas that are required in the trust deed include the following:

  (i) The borrower's covenant to pay principal and interest due on the PDS, and compliance with other covenants contained in the trust deed;

  (ii) Additional borrowers' covenants, and the powers and responsibilities of the trustees; and

  (iii) Events constituting default and the remedy of such default.

  The minimum content requirements for trust deeds will strengthen protection for bondholders, in the form of clear obligations and responsibilities imposed on borrowers and trustees.

  Please refer to Appendix 6 for a listing of the various guidelines on debt securities and sukuk market issued by the SC. Details of the abovementioned guidelines and regulations are available on the SC's website.

- **Securities Commission (Shelf Registration Scheme for Debentures) Regulations 2000**

  A shelf registration scheme (SRS) is available to issuers who wish to make multiple PDS issues over a period of time, and would like to have the flexibility of determining when to offer the PDS in the market. SRS is available to issuers who are able to meet the following requirements:

  (i) Issuers must be good corporate citizens and must not have been prosecuted for breach of any securities or company laws, or defaulted on borrowed money that had resulted in the immediate recall of the loan by the lender in the preceding 12 months prior to the registration of the shelf prospectus and during the effective period of the shelf prospectus;

(ii) The total offering must be not less than RM100 million in nominal value; and

(iii) The PDS must have obtained an investment grade rating at the time of the registration of the shelf prospectus, and throughout the validity period of the shelf prospectus.

This scheme enables the issuance of bonds to be carried out in as short a time as possible, and within a validity period of two years, without the need to seek prior regulatory approval for each issuance. This system enables issuers to time PDS issues in such a way as to take advantage of current market conditions, exchange rates, and - particularly in relation to a bond issue - movements in interest rates, thus reducing costs for issuers.

Under the shelf registration scheme, an issuer will be required to prepare a shelf prospectus containing all the relevant information with respect to the issuer and the proposed PDS issue. The shelf prospectus will contain all such information except particulars in relation to the price, number of securities and timing of the issue. To ensure the accuracy of information provided to investors, a supplementary prospectus that updates the information contained in the shelf prospectus, and which states the pricing information outlined above will be required.

- **Prospectus Guidelines**

The contents of prospectuses are instrumental to the SC's efforts in promoting greater disclosure of information vital to investment decisions. A prospectus must include all information that investors and their advisors would reasonably require and expect to find in a prospectus, for the purpose of making informed investment decisions. False or misleading statements and/or material omissions in such documents constitute a criminal offence and can attract a fine not exceeding RM3 million or imprisonment not exceeding 10 years, or both. In addition, investors can avail themselves of civil remedies if they suffer losses or damage as a result of such misstatement. The SC is also able to institute public interest litigation on behalf of investors who suffer such losses or damage.

The *Prospectus Guidelines* set out the minimum level of information that must be disclosed as an initial guide to the market. Ultimately, issuers must be guided by the "general disclosure test" in assessing whether the information requires disclosure.

Disclosures that are required under these guidelines include information pertaining to the issuer, the terms and conditions of the debentures, financial information, risk analysis, ratings, events of defaults, utilisation of proceeds and details on related-party transactions. In addition, the type of information that is required in a shelf prospectus and supplementary shelf prospectus is also spelt out in these guidelines.

However, the prospectus requirement does not apply to an excluded offer, excluded invitation or excluded issue. For example, the issuance of corporate bonds and sukuk to retail investors with a net worth of less than RM250,000.00 would require the issuance of a prospectus. An "excluded invitation" or "excluded offer" is one that is specified in Schedule 6 of the CMSA, or which is prescribed by the Minister of Finance on the recommendation of the SC as such. An "excluded issue" is an issue that is specified in Schedule 7 of the CMSA, or similarly prescribed by the Minister of Finance.

The Malaysian debt securities and sukuk market remains a preferred centre for corporations to raise funds when compared to the banking sector and stock market. In 2008, a total of RM51.2 billion was raised, somewhat less than the previous year's RM69.4 billion due to a tapering off of infrastructure projects, which usually have massive financing requirements. Sukuk, likewise, recorded a contraction in issue value due to the issuance of conventional bonds by local and foreign financial institutions that have conventional based assets, and hence were unable to issue Islamic-based securities. Table 5.1 below shows the primary market activities in 2008 compared to 2007:

Table 5.1: Primary market activities (long-term issuance) in 2007 and 2008

	2008 (RM billion)	2007 (RM billion)
Size of sukuk issued	24.38	45.50
Size of conventional bonds issued	26.80	23.90
Total corporate bonds and sukuk issued	51.18	69.40
Sukuk issued as a percentage of total issuance	47.6%	65.5%

The facilitative issuance framework and conducive environment of the Malaysian debt securities and sukuk market have not only led to sizeable issues from domestic corporations, but have also attracted a large number of issuances from foreign corporations. For 2008 alone, the following foreign entities have chosen Malaysia as their preferred centre for the issuance of bonds:

Table 5.2: Ringgit bonds and sukuk issued by foreign entities in Malaysia in 2008

No.	Issuer	Size of Facilities (RM billion)	Summary of issuances	
			Size of issuance or first drawdown (RM billion)	Date of issuance or first drawdown
1	Gulf Investment Corporation	1.0	1.0	February 2008
2	The Export-Import Bank of Korea	3.0	1.0	March 2008
3	Oversea-Chinese Banking Corporation Limited Singapore	-	1.0	March 2008
4	State Bank of India	0.5	0.5	March 2008
5	Industrial Bank of Korea	3.0	1.0	April 2008
6	Hyundai Capital Services Inc.	2.0	0.9	May 2008
7	Oversea-Chinese Banking Corporation Limited Singapore	-	0.6	June 2008
8	Woori Bank	1.0	0.5	June 2008
9	National Agricultural Cooperative Federation	3.3	0.3	July 2008
10	Tadamun Services Bhd (SPV sponsored by Islamic Development Bank)	1.0	0.3	August 2008

Requirements for a Ringgit-denominated Issue

A disclosure-based approach is adopted for the issue, offer or invitation in regard to a PDS or sukuk issue for domestic issuers. Pursuant to this, the SC will grant its approval upon fulfillment of the following requirements:

(a) Submission of a full set of documents and relevant information, as clearly outlined in the PDS Guidelines, ABS Guidelines or the IS Guidelines, which will allow investors to make informed decisions;

(b) Compliance with a set of transparent criteria required of an issuer and a principal advisor under these Guidelines; and

(c) Compliance with any additional requirements that may be imposed by the SC to protect the interests of PDS or sukuk holders.

All persons must appoint a Principal Advisor to seek approval from the SC for their proposed or purchase of, or invitations to subscribe for or purchase of PDS or sukuk under the these Guidelines.

In the case of an issuer that is a multilateral development bank (MDB) or multilateral financial institution (MFI), the requirement to appoint a principal advisor does not apply for their proposed issue, offer or invitation of PDS or sukuk. The MDB and MFI may submit the information and documents specified in the guidelines directly to the SC, or through an advisor or a representative. All applications that relate to the issuance of ringgit-denominated bonds or sukuk by MDBs or MFIs should be submitted concurrently to the Ministry of Finance, Bank Negara Malaysia and the SC. The SC shall deem the application approved on the date of receipt of a complete submission.

The issuer, the principal advisor, advisors, experts and other persons accepting responsibility for all or any part of the information that is disclosed in the submission to the SC and in the offering documents to the investors should exercise due diligence and comply with the *Guidelines on Due Diligence Conduct for Corporate Proposals,* where applicable, in relation to a proposal submitted under these Guidelines.

An important recent development for the corporate bond market is the announcement to extend the deemed approval process, previously granted only to high-quality issuers such as multilateral development banks and multilateral financial institutions, to all issuers which are rated AAA on the local currency rating scale or a minimum BBB in foreign currency rating scale. Under this new framework, all ringgit-denominated bonds and sukuk issued by local quasi-sovereign entities, government-linked corporations and other corporations that carry AAA ratings on the local currency rating scale will be deemed approved upon making a full submission of their proposals to the SC.

In addition, use of international documentation is now permitted for all ringgit-denominated bond or sukuk offerings, whether by local or foreign issuers that are rated AAA on the local currency rating scale or a minimum BBB on a foreign currency rating scale. Ringgit-denominated bonds or sukuk which are accorded the deemed approval process are also exempted from the mandatory trust deed and trustee requirements under the CMSA.

Unless otherwise exempted under Schedule 8 of the CMSA, all issues or offers of PDS or sukuk must be accompanied by a trust deed.

Additional Requirements for a Sukuk Issue

The issuance of Islamic securities or sukuk falls within the ambit of the *Guidelines on the Offering of Islamic Securities* (IS Guidelines). For these issues, an issuer must appoint either of the following:

(a) An independent *Shariah* advisor approved by the SC, and that meets the following criteria:
- is not an undischarged bankrupt;
- has not been convicted of any offence arising out of a criminal proceeding;
- is of good repute; and
- possesses the relevant qualifications and expertise, particularly in *fiqh muamalah* and Islamic jurisprudence, and has a minimum of 3 years' working experience or exposure to Islamic finance; or

(b) The *Shariah* Committee of an Islamic bank or a licensed institution approved by Bank Negara Malaysia to carry out Islamic Banking Scheme or Skim Perbankan Islam, to advise on all aspects of Islamic securities, including documentation, structuring, investment and other administrative as well as operational matters in relation to Islamic securities.

Where the *Shariah* advisor to be appointed is a company, such company must have in its employment a minimum of one individual who meets the criteria mentioned in (1) above. The company must also not have breached any securities or banking laws since the date of incorporation, nor have a winding-up order or resolution passed against it.

As a guide, the SAC advises the SC on all matters related to the comprehensive development of the Islamic capital market in Malaysia, and functions as a reference centre for all issues in this market. The SAC has outlined several Shariah principles that can be adopted in the structuring and issuance of sukuk, as follows:

(i) *Mudharabah* Sukuk by Securitising Islamic Hire-purchase Financing

The SAC has approved the concept and mechanism applied to sukuk issuance based on the *Mudharabah* principle through the securitisation of Islamic hire-purchase financing (*Al-Ijarah Thumma al-Bai`*). The purchase of Islamic hire-purchase financing is based on the Shariah concept of *bai` al-dayn* (debt trading).

(ii) *Ittifaq Dhimniy* Principle

The SAC has approved the *ittifaq dhimniy* principle in structuring sukuk. *Ittifaq dhimniy* refers to an understanding that exists before a contract is sealed. The seller and buyer have made a prior agreement to sell the asset at a specific price, and to buy it back at a particular price. The principal dealer that secures the tender will buy the assets. This refers to the understanding in a sale and purchase transaction, in accordance with *Bai' Muzayadah* trading. It is likely that in the context of the formation of an Islamic benchmark bond, there can be more than one principal dealer buying the assets as partners in accordance with their respective allotments.

(iii) *Dha` Wa Ta'ajjal*

The SAC has agreed to accept the use of the *dha` wa ta'ajjal* principle in promoting an Islamic capital market instrument. *Dha` wa ta'ajjal* is the action of a creditor forfeiting part of the debt, when the debtor settles the balance of his obligation earlier than scheduled.

(iv) Third-party Guarantee on Capital

Sukuk issuers are allowed to apply third-party guarantees to the capital invested under the principles of *Musyarakah* and *Muqaradhah/Mudharabah*. It has been agreed that a fee (*ujrah*) is allowed to be paid to the guarantor, on condition that the guarantee should not be on a recourse basis. This means that the investors cannot claim compensation for losses against issuers in the event of a business failure if the transaction is guaranteed by a third party. The investors are also allowed to demand for collateral from issuers in view of possible gross negligence by the issuers.

(v) Government Award (*Iqta'*)

All contracts awarded by the Government, e.g. concessions or construction, supply and service contracts, are accepted as approved underlying assets when structuring sukuk. The SAC has also agreed to recognise contracts with the Government for the supply of goods and maintenance as approved underlying assets for the structuring of Islamic sukuk. Both decisions are based on the *iqta'* principle of Islamic jurisprudence, where the *qiyas* (analogy) methodology is applied. The SAC has also decided that the *iqta`* principle can be applied to contracts awarded by the Government, government agencies and government-related companies.

(vi) Compensation (*ta'widh*)

The SAC has resolved that the compensation (*ta'widh*) clause for late and defaulted payment by an issuer can be inserted into the primary legal document of a sukuk transaction. *Ta'widh* can be imposed after it is found that *mumathil* (deliberate delay in payment) is present on the part of the issuer when settling payment of principal or profit. The rate of *ta'widh* on late payment of profit is 1% per annum of the arrears; it cannot be compounded. While the *ta'widh* rate on failure to settle the payment of the principal is based on the current market rate in the Islamic inter-bank money market, it too cannot be compounded.

(vii) Rebate (*ibra*)

The SAC has also resolved that the *ibra* (rebate) clause for early settlement can be inserted into the primary legal document of a sukuk transaction. The resolution is provided on the basis of *'uruf* (custom), maslahah (public interest) principles and to avoid gharar (uncertainty). The *ibra'* clause in the primary legal document is considered as syart (condition) that complies with the purpose of the contract (*muqtadha al-`aqd*). However, the SAC has advised that the *ibra'* clause is to be separated from the pricing section in the primary document; instead, it should be inserted in the payment and settlement section.

(viii) "When Issued"

The "when issued" (WI) process for the issuance of sukuk in the primary market is recognised as *Shariah*-compliant. The ruling had been made on the basis that there are no elements of *riba* (usury) and *gharar* (uncertainty) in the WI process.

(ix) Islamic Asset Securitisation

The SAC has resolved that asset securitisation is permissible if the underlying asset for the sukuk is *Shariah*-compliant. However, an asset which is in the form of debt structures such as *Murabahah* and *Bai' Bithaman Ajil* receivables cannot be securitised for the purpose of issuing Islamic asset-backed securities structured along the debt principles of *Murabahah* and *Bai' Bithaman Ajil*, respectively.

(x) Asset Pricing

The SAC has issued guidelines on asset pricing for sukuk, to facilitate the process of determining the selling price of the asset used as an underlying asset for sukuk structured under the principles of *Ijarah, Bai' Bithaman Ajil, Bai' Inah and Murabahah.*

The SAC has resolved that the purchase price of the asset, if it is sold at a premium, should not exceed 1.33 times the market value. On the other hand, if the asset is sold at a discount, the purchase price should not be less than 0.67 times the market value.

To further facilitate the asset-pricing process, the SAC has resolved that if the market value cannot be identified, then fair value or any other suitable value can be applied as long as it is on a "willing buyer, willing seller" basis, and can be evaluated through appropriate valuation methods.

(xi) Conventional Leasing Receivables Disallowed as Underlying Assets for Sukuk

Sukuk issuers must use receivables derived from Islamic transactions, such as receivables from *Ijarah* transactions, as underlying assets. This ruling is to further promote the development of Islamic instruments, such as those based on the *Ijarah* principle.

(xii) Floating-rate Mechanism

The SAC has resolved that a floating-rate mechanism can be applied to sukuk based on *Bai' Bithaman Ajil, Murabahah* and *Istisna'*. This can be effected with the application of the rebate (*ibra*) element when determining the effective profit rate of the sukuk. The effective profit rate is benchmarked against movements in market rates.

(xiii) Uncertainty Regarding Possession of Goods (*Ghair Mustaqir*) under the Principle of Purchase Order (*Istisna'*)

Istisna' transactions in Islamic securities are normally supported by legal processes and clauses to protect the parties involved. This is further backed by the relevant legal and regulatory frameworks instituted by the authorities. As such, elements related to *ghair mustaqir* or uncertainties are eliminated. In addition, the features of the *Istisna'* principle are different from those of the advance purchase (*salam*) principle. The element of *ghair mustaqir* is usually only related to the *salam* principle.

(xiv) Utilisation of Proceeds

Proceeds from a sukuk issuance can only be utilised for *Shariah*-compliant activities.

Requirements for a Foreign Currency-denominated Issue

For a foreign currency-denominated bonds or sukuk issue, the size of the issue should be large enough to contribute to the development of the domestic debt securities and sukuk market.

The foreign currency-denominated issue must be accompanied by at least one credit rating, which is to be made available throughout the tenure of the bond or sukuk issuance or programme. Foreign currency credit ratings assigned by international credit rating agencies are acceptable for these issues. There is no minimum requirement on tenure.

An application by a Qualified Issuer should be submitted to Bank Negara Malaysia and the SC; in the case of MDBs and MFIs, it must also be forwarded to the Ministry of Finance. A Qualified Issuer means an MDB, an MFI, a foreign government, an agency or national corporation of the Malaysian Government or foreign government, foreign multinational corporations or resident corporations. A submission to the SC shall be made through an advisor, in accordance with the clear requirements provided under the Guidelines of the Offering of Islamic Securities or the Guidelines of the Offering of Private Debt Securities, whichever is applicable.

A submission by a Qualified Issuer with at least a BBB credit rating for the foreign currency-denominated bonds or sukuk shall be deemed approved upon a proper filing to the SC, at least two working days prior to the issuance.

The statutory requirement to appoint a trustee and enter into a trust deed is exempted if an issue, offer or invitation of the foreign currency-denominated bonds or sukuk fulfills the following criteria:

(a) It is made by the Federal Government, any State Government or any statutory body of Malaysia, or it is guaranteed by the Federal Government of Malaysia;

(b) It is made by an AAA-rated foreign government, MDB, MFI, or agency or national corporation of a foreign government[1]; or

(c) It is made by a Qualified Issuer exclusively to sophisticated institutional investors[2].

The liberalised approval process for which an application to issue debt securities in Malaysia is deemed to be approved has also been extended to all entities issuing foreign currency-denominated bonds or sukuk in Malaysia with a minimum BBB rating in foreign currency rating scale.

[1]*As stated under paragraph 12, Schedule 8 Capital Market and Services Act 2007*
[2]*As stated under paragraph 11, Schedule 8 Capital Market and Services Act 2007*

Operational Requirements

(a) Issuance

All bonds and sukuk, save those for which a listing is sought on Bursa Malaysia, are issued on scripless basis through FAST operated by Bank Negara Malaysia. FAST is an automated tendering system where invitations to tender, bid submissions and processing of tender for scripless instruments are done electronically.

The tender announcement detailing the size and exact date of issue will be announced to the market at least 5 business days before the issue date via the FAST system; this will also be made through major newspapers for government securities. For government securities, the information will also be fed to other information providers such as Bloomberg and Reuters. In the case of issuance via private placement, the stock is to be created at least 3 days prior to issue date.

Once all the relevant information has been provided to FAST, it will generate the stock code for the issue, prior to the issuance date. Concurrent with the issuance of the alphanumeric stock code, FAST will also generate the International Securities Issuing Number (ISIN) for securities intended for a broader market and international offers. ISINs have been introduced in Malaysia as a secondary measure for the identification of securities. The use of ISINs will also enable international securities clearance, such as through Clearstream or Euroclear.

All bids will be submitted via the FAST system. If bids are successful, the securities will be allotted to the successful bidder via the RENTAS system by lodging the securities with their appointed ADIs. Settlement will then take place automatically through RENTAS on a Delivery versus Payment (DvP) basis.

A summary of the mode of offer and tender basis for each category of debt securities is provided below:

Table 5.3: Mode of offer and tender basis for Malaysian debt securities and sukuk

Securities	Mode of offer	Tender basis
MGS, GII and Khazanah (new issue)	Tender and/or private placement	Yield
MGS & Khazanah (re-opening)	Tender and/or private placement	Price
BNMN-CB / IPB/ DB/ IDB (new issue)	Tender and/or private placement	Yield
BNMN- Floating Rate	Tender and/or private placement	Spread
BNMN-CB (re-opening)	Tender and/or private placement	Price
BNMN-DB (re-opening)	Tender and/or private placement	Yield
MTB/MiTB	Tender and/or private placement	Yield
Conventional PDS	Tender and/or private placement	Yield
Conventional PDS (re-opening)	Tender and/or private placement	Price
Sukuk	Tender and/or private placement	Profit rate

Under special circumstances, debt securities may be issued via private placement. Private placement takes place when a company makes an offering of securities or raises capital - not to the public, but directly to an individual or a small group of investors. The group of investors involved in private placements usually comprises large banks, unit trust funds and collective investment schemes, insurance companies, and pension funds.

An alternative method of issuing bonds is through book building. Book building is the process of generating a book of investors' demand for corporate bond offerings, for efficient price discovery. Usually, the issuer appoints a major bank to act as a book runner. During the fixed period when the subscription is open, the book runner collects bids from investors at various prices. The process targets both wholesale and retail investors. The final issue price is not determined until the end of the process, when the book is closed. After the conclusion of the book-building period, the book runner evaluates the collected bids on the basis of certain evaluation criteria, and sets the final issue price.

The typical issuance process for short-term papers is illustrated in Chart 5.1 below. The typical issuance process for unlisted corporate debt securities and sukuk is illustrated in Chart 5.2. Chart 5.3, meanwhile, provides a diagrammatic representation of a typical issuance structure in FAST for both open tender as well as a private placement.

Chart 5.1: Typical issuance process for Short-term Papers

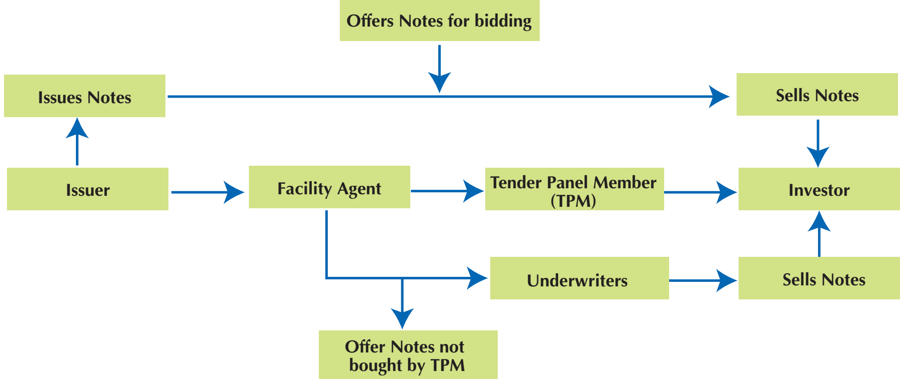


Chart 5.2: Typical structure for the issuance of unlisted corporate debt securities and sukuk

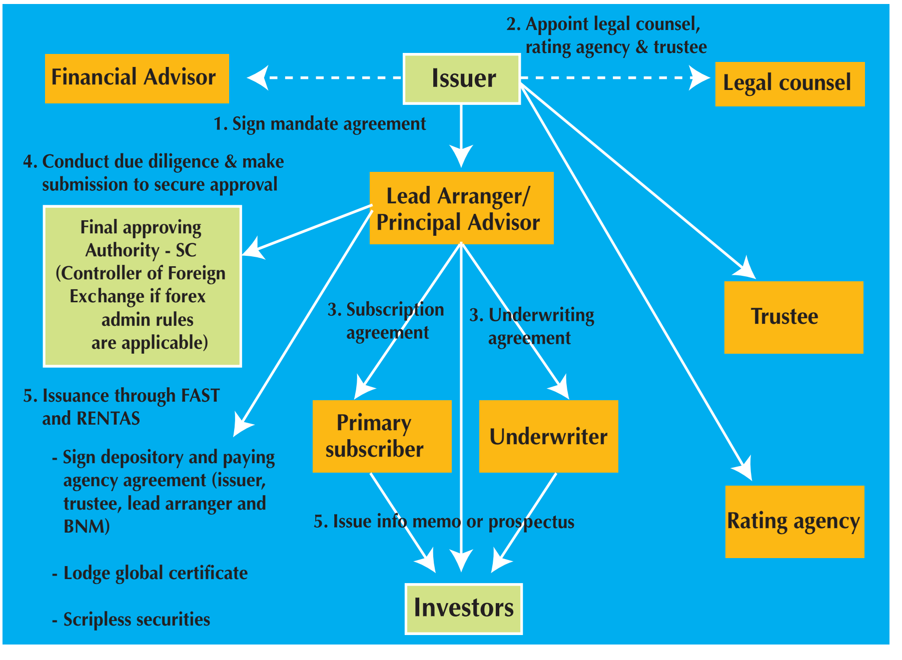
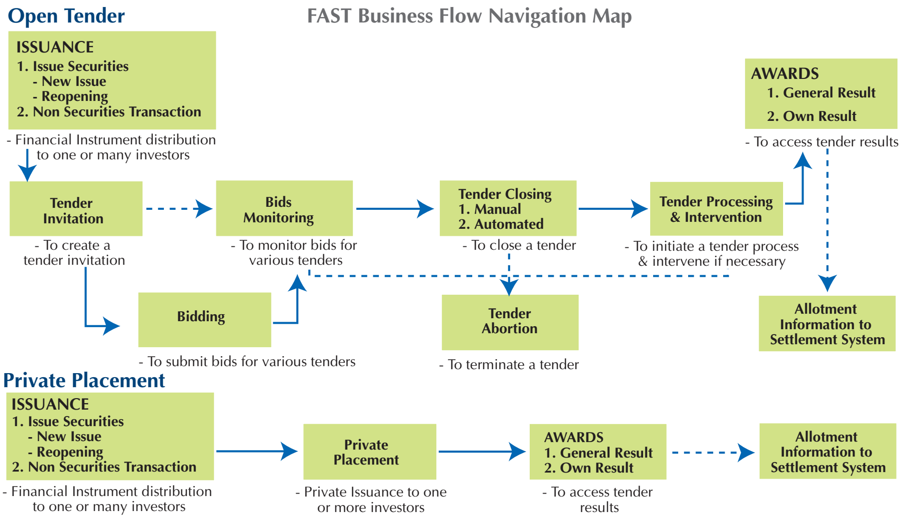


Chart 5.3: Typical issuance structure in FAST



(b) Depository

All unlisted Ringgit-denominated bonds and sukuk issued must be deposited with RENTAS, with Bank Negara Malaysia as the Central Depository agent for the bonds, and ADIs in Malaysia, i.e. licensed on-shore financial institutions and investment banks in Malaysia, as the Sub-Depositories. Foreign currency-denominated bonds and sukuk may be deposited with RENTAS. The advisor or lead arranger that is a RENTAS member shall facilitate the process of depositing the bonds in RENTAS, including the execution of the Depository and Paying-Agency Agreement.

Listing of Debt Securities and Sukuk under Exempt Regime

The listing of debt securities and sukuk on Bursa Malaysia will enhance transparency for investors and offers valuable profiling opportunities for issuers of the instruments. All listings of debt securities and sukuk on the Exchange must comply with the rules introduced by Bursa Malaysia under its Listing Requirements. Under the listing framework, debt securities or sukuk denominated in ringgit and foreign currencies issued by local and internationally listed and non-listed entities will be allowed to be listed on Bursa Malaysia. The requirements of this framework are comparable with the practices of other Exchanges that provide similar listing facilities. Applications for listing will be approved by Bursa Malaysia within one day.

6

PARTIES IN A DEBT SECURITIES OR SUKUK ISSUE

There are various parties to a debt securities or sukuk issue. Each one plays an important role; together, they ensure that the issue is appropriately structured and investors' interests are comprehensively safeguarded.

The Lead Arranger or Principal Advisor is responsible for submitting the application to the SC for approval, while the Arranger, together with the Lead Arranger, structures the debt or sukuk proposal for the issuer and also performs the due diligence exercise together with a team of lawyers. The Lead Arranger or the Arranger will usually also act as the Facility Agent and Paying Agent, who are respectively responsible for administrative matters pertaining to the issue, e.g. facilitating the creation of the issue and stock code, and the cashflow involved in the transaction, in terms of receiving the proceeds from the issuance on behalf of the issuer and remitting the proceeds to the issuer, as well as the payment of interest to investors. An underwriter(s) may be appointed for the issue to ensure that any undersubscribed portion is fully taken up and the issuer is assured of receiving the full proceeds of the issuance. In the case of sukuk, a *Shariah* advisor will advise the issuer on the appropriate and acceptable concept(s) and principle(s) to be used in the issuance.

The trustee for the bond or sukuk issue, meanwhile, looks after the interests of the investors by ensuring that the issuer discharges its obligations in a timely and appropriate manner. The credit rating agency is responsible for the continuous monitoring of the issue after its initial rating - to ensure that investors are provided with the relevant information on the issue in a timely and efficient manner.

Lead Arranger/Principal Advisor

The role of the Lead Arranger or Principal Advisor is to structure the debt securities or sukuk proposal, together with any other arrangers, and submit the application to the SC for approval. Under the SC's *Guidelines on Principal Advisors for Corporate Proposals,* the following institutions may act as Principal Advisors for the following types of proposals:

Islamic banks, investment banks or universal brokers	All sukuk proposals
Investment banks or universal brokers	All PDS proposals
Licensed banks	All PDS and sukuk proposals, except for any of the following: ● PDS capable of being converted into new equity ● PDS of locally incorporated public companies or foreign corporations, which are issued together with warrants
Special scheme brokers	Proposals for the offering of PDS of foreign issuers to investors, identified under Schedules 6 and 7 of the CMSA

Advisor

The role of the Advisor is to structure the debt or sukuk proposal together with the Lead Arranger. For the purpose of issuance of foreign currency-denominated bonds and sukuk under the *Joint Information Note on the Issuance of Foreign Currency-Denominated Bonds and Sukuk in Malaysia* issued by Bank Negara Malaysia and the SC, an advisor means:

- Commercial banks licensed under the Banking and Financial Institutions Act 1989 (or BAFIA).
- Islamic banks licensed under Islamic Banking Act 1983.
- Investment banks licensed as both a merchant bank pursuant to Section 5 of the BAFIA and as a dealer pursuant to the CMSA, and duly established pursuant to the *Guidelines on Investment Banks* jointly issued by Bank Negara Malaysia and the SC.

Underwriter

Investment banks and commercial banks are the main underwriters of debt securities and sukuk. Underwriters assume the risk of undersubscribed debt issues and assure the issuer of liquidity. The Arranger of the issue, besides inviting licensed financial institutions to underwrite the issue, can also be an underwriter, depending on its limits and its appetite for the paper.

If an issue is undersubscribed, the arranger will notify the underwriters. For issues of Notes, underwriters bid at a discount, while for bond issues, bids are based on yield, depending on the coupon. Underwriters generally charge a flat participation fee of 0.25%-0.5% of the underwritten amount, and an underwriting fee is charged, based either on the cost of funds plus a spread, or on the base lending rate plus a spread.

Facility Agent

The Facility Agent is responsible for all administrative matters pertaining to the issue, such as facilitating the creation of the issue and the stock code in FAST. The Lead Arranger, in many cases, also acts as the Facility Agent.

Paying Agent

The Paying Agent is responsible for the cashflow involved in the transaction, in terms of receiving the proceeds from the issuance on behalf of the issuer and remitting the proceeds to the issuer, as well as the payment of interest to investors. The Lead Arranger is often also the Paying Agent.

Legal Counsel

Before the finalisation of a debt securities or sukuk issue, a legal due diligence exercise is always conducted on the issuer, related projects and project information pertaining to the securities issue or sukuk. This is done by a team of lawyers appointed by the issuer. A limited financial due diligence exercise is also undertaken to ascertain the credibility of the financial projections and financial data of the issue. The primary purpose of these due diligence exercises is to ensure that no misleading and/or inaccurate information is furnished to the regulatory authorities and investors in general. A set of guidelines on the standards expected from a due diligence exercise has been issued by the SC, i.e. the *Guidelines on Due Diligence Conduct for Corporate Proposals*, which came into effect on 1 February 2008.

Shariah Advisor

A *Shariah* Advisor must be appointed for a Sukuk issue to advise the issuer on the appropriate and acceptable concept(s) and principle(s) to be used in the issuance. The *Shariah* concepts and principles to be used must be approved by the Shariah Advisory Council.

Trustee

Trustees for a bond or sukuk issue have the responsibility of safeguarding the interests of the bond holders. The trustee will, among others, vet through the Transactions Documents of a bond or sukuk issue to ensure, to the best of its ability, the following:

(i) That there are no inconsistencies or conflicts of interest between the provisions of the trust deed and the conditions stated in the SC's letter of approval and in the term sheet approved by the SC;

(ii) That there are no provisions in any of the Transaction Documents that are inconsistent or in conflict with, or may lead to inconsistency or conflict with, the trustee's duties; and

(iii) That the SC's *Guidelines on the Minimum Content Requirement for Trust Deeds* have been complied with.

In view of the important role of trustees in a debt securities or sukuk issue, the SC has introduced a set of registration guidelines to ensure that only fit and proper trustee companies can act as bond or sukuk trustees, and that they discharge their fiduciary duties in a proper manner. For this purpose, a bond or sukuk trustee for an issue of debentures or Islamic securities approved by the SC on or after 2 January 2007 must be registered with the Commission pursuant to the *Registration by the Securities Commission for the Purpose of Acting as a Bond Trustee.* The issuance of the registration criteria for trust companies to act as bond or sukuk trustees dovetails with the requirement for a corporate bond or sukuk issuer to appoint a trustee and enter into a trust deed under the CMSA. The higher standards of professionalism among trustees will translate to greater protection for investors.

Among others, the SC will evaluate the financial resources of the trustee company, its expertise, its independence and avoidance of conflict of interests as well as track record to ensure that only fit and proper trustee companies are registered. A list of companies registered with the SC to act as bond or sukuk trustees are as provided in Appendix 12.

Credit Rating Agency

There are two credit rating agencies (CRAs) in Malaysia that provide independent opinions on the credit risks and potential default risks of specific issuers. The first rating agency, Rating Agency Malaysia Berhad (now known as RAM Rating Services Berhad), was established in November 1990; the second, Malaysian Rating Corporation Berhad (or MARC), was incorporated in October 1995.

Malaysia is one of the first countries in the world to require the recognition of CRAs for the purpose of rating a bond or sukuk issue. This is in recognition of their vital role in evaluating the probability of default of a debt securities or sukuk issue, and the importance investors place on ratings for their investment decisions, despite the fact that all rating reports carry a disclaimer expressly stating that "a rating is not a recommendation to purchase, sell or hold a security's market price or its suitability for a particular investment, nor does it involve any audit by the rating agency". CRAs are required to be recognised by the SC for the purpose of rating debt or sukuk issues in Malaysia, pursuant to the *Guidelines on Recognition of Credit Rating Agencies by the Securities Commission for the Purpose of Rating Bond Issues*. A CRA is also required to adopt the IOSCO CRA Code in its own code of conduct, and to disclose this on its website. Where the CRA's code of conduct differs in substance from the provisions of the IOCSO CRA Code, the rating agency must explain where and why these differences exist, and fully disclose this on its website.

In Malaysia, all debt securities and sukuk issues are required to be accompanied by a credit rating at all times. A credit rating is a mechanism through which an independent third party, i.e. the CRA, makes an assessment on the likelihood of a corporate issuer's default on its debt repayments. A credit rating focuses on a specific debt instrument and not the overall creditworthiness or financial standing of the corporate issuer. A rating will take into consideration various enhancement tools like guarantees, sinking funds, letters of credit or any other mechanism devised to reduce the default risk of specific issues. Thus, a corporate may be assigned different rating categories for different debt issues.

A CRA, therefore, performs the following functions:

(i) Investor Protection

The independent, objective analysis of the credit quality of debt and sukuk issues aids the investor in making informed choices to determine the level of risk and associated returns they are willing to undertake for their investment. Besides the predictive value of ratings, the continuous surveillance of a rated instrument acts as an early-warning system to alert investors to any changes in the quality of the rated debt or sukuk, so that investors may reassess their positions and realign their portfolios accordingly.

(ii) Enlarged Investor Pool

The alpha-numerical symbols used to indicate the relative riskiness of a variety of debt instruments or sukuk arise from analytical skills and access to essential corporate information, which is necessary for informed investment decisions. Thus, this simple yardstick of evaluation is a powerful tool that serves to enlarge the pool of investors.

(iii) Information Disclosure

As the debt securities and sukuk market develops and the nature and variety of debt instruments and sukuk increase, even experienced investors may find it difficult to make informed choices because of lack of accessibility or the complexity of information about the corporate issuer. The nature and specialisation of a CRA place it in a position where it has access to public as well as private information pertinent to the assessment of credit risk. Such information is not usually accessible to the individual investor. A competent CRA, therefore, bridges this information gap between the issuers of debt or sukuk and investors.

Conversely, markets that are inefficient will lead to incorrectly-priced securities, which do not reflect the fundamental values of the assets and lack information necessary to investors. In providing information on default risk, investors have access to information that enable them to establish benchmarks for comparing the risks and returns on their investments.

(v) Lower Cost of Borrowing

A high rating assigned to a corporate borrower translates into a lower cost of borrowing for the issuer as the risk premium demanded by investors is lower. Corporate borrowers are thus motivated to improve their financial structures and operating risks to obtain high ratings for their PDS or sukuk issues. This, in turn, enables companies to raise more funds to finance their expansion and the management of their activities, resulting in higher allocative efficiency.

(vi) Aids Pricing Decisions

The interest payable on corporate debts, and profit payments in the case of sukuk, are linked to their assigned ratings. Therefore, credible and objective ratings are invaluable aids to investment bankers, underwriters and brokers when determining the pricing of debt instruments.

To promote transparency in the debt securities and sukuk market, information on ratings is widely disseminated to all existing and potential PDS and sukuk investors in a timely manner.

Financial Guarantee Institution

Financial Guarantee Institutions (FGIs) help raise the credit rating of bond issues, which otherwise would normally be below investment grade, to a level deemed investment-grade by investors by lending their own sterling ratings to these bond issues. Issuers will need to pay a premium, commensurate with the perceived risk of the issuer, to these FGIs who will undertake to pay the interest and capital repayment in the event that the issuer fails to do so.

Danajamin Nasional Berhad has been established as a financial guarantee institution to provide credit enhancement for companies to raise funds from the bond market. This important initiative is also expected to help stimulate the local economy by guaranteeing bonds to be issued by companies in key sectors like infrastructure and services to finance viable projects.

7

INVESTING IN DEBT SECURITIES AND SUKUK IN MALAYSIA

Attractiveness of Investing in Debt Securities and Sukuk

As a low-risk, liquid asset with fairly good returns, debt securities and sukuk generally offer many attractions to investors, as follows:

- Investors are provided with a steady stream of income through the regular coupon payments that the issuer has contracted to pay throughout the tenure of the instrument, or profit payments in the case of sukuk. Meanwhile, the principal sum is preserved;

- Relatively attractive yields and profits that are usually higher than the interest received from savings and deposits in banks. Should the investor purchase the debt securities or sukuk at a discount, they are able to enjoy a capital gain on redemption at maturity;

- Offers high liquidity - a welcome feature to investors who face the problem of not being able to fully recover their money on demand. The marketability of debt securities or sukuk makes them liquid assets, as investors are able to sell their bonds or sukuk to convert their investments into cash whenever needed;

- A safer asset than, say, shares. PDS or sukuk are low risk assets and as long as the issuer does not default, the investor receives coupons or profit payments;

- Hybrid bonds and Islamic securities such as exchangeable sukuk provide investors with the opportunity of profiting upon converting their convertible bonds or warrants (or exchangeable sukuk in the case of Islamic securities) into shares at a future date, should the price of the underlying shares appreciate beyond the conversion or exercise price; and

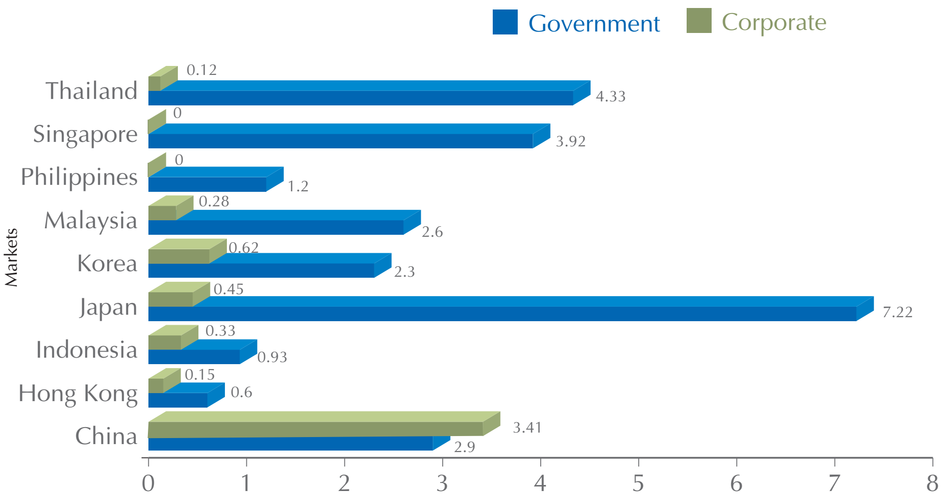
- In the event the issuer becomes insolvent, bondholders - as providers of loan capital - have a prior claim on the company's assets. This is in contrast to equities, which are known as risk capital because they are invested at the shareholder's risk.

Facts and Figures

Empirical evidence shows that theoretically, RM1,000 invested in a portfolio of MGS mirroring the RAM-Quant Shop MGS Index from May 1998 to May 2008 would be worth RM2,297.59. A similar investment placed in a 1-month Fixed Deposit at 3.0% per annum for 10 years would be worth RM1,343.90.

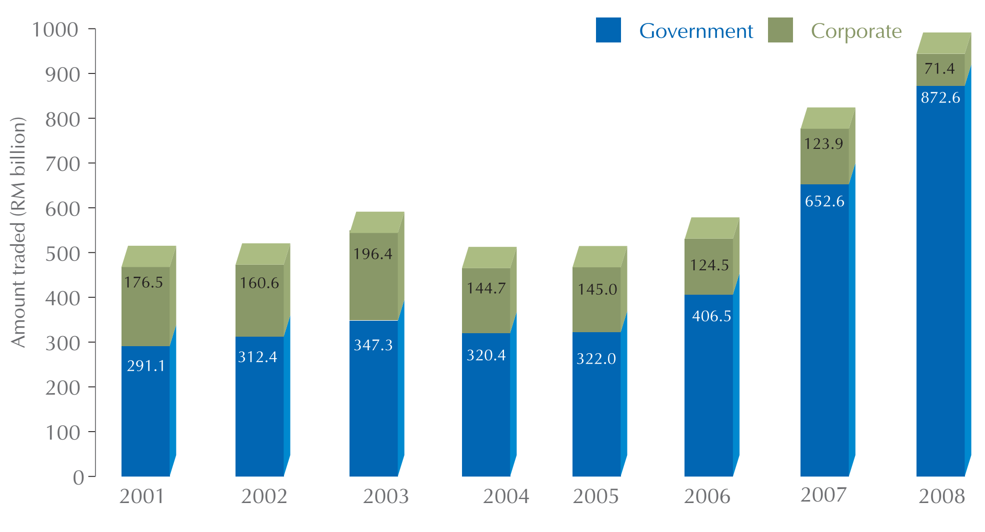
Chart 7.1 shows the annual turnover ratios for both sovereign and corporate bonds. The annual turnover ratio for corporate bonds in Malaysia is higher than those for other ASEAN countries while the ratio for MGS is also relatively high compared to other markets in the region. Chart 7.2 shows the annual bond turnover in the Malaysian market in ringgit terms.

Chart 7.1: Annual bond turnover ratios for the year 2008



Source: AsianBondsOnline

Chart 7.2: Annual turnover of debt securities and sukuk in Malaysia



Foreign holdings of ringgit-denominated bonds and sukuk have also been trending upwards, reaching a total of RM42.86 billion as at end 2008. In the past 5 years, the Malaysian debt securities and sukuk market had been able to continuously draw foreign investors due to the many plus-points and incentives for investors in the domestic market. In 2003, foreign investors' holdings of ringgit-denominated bonds and sukuk only amounted to RM1.2 billion. However, this had multiplied by an impressive 40 times by 2008. Chart 7.3 shows the growth in foreign holdings of ringgit-denominated bonds and sukuk.

Chart 7.3: Holdings of ringgit-denominated debt securities and sukuk by foreign investors

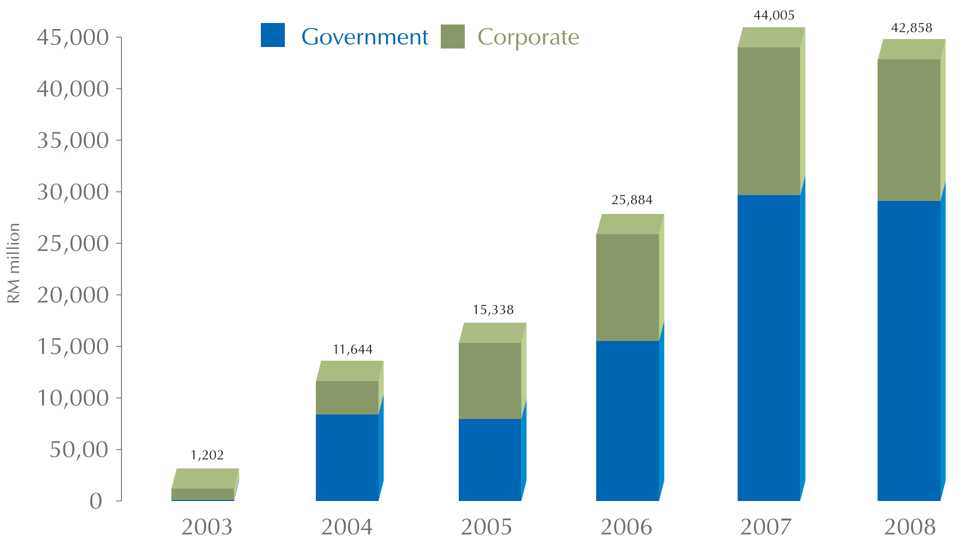


Table 7.1: Holdings of ringgit-denominated debt securities and sukuk by foreign investors

RM Million

End of Period	Government	of which: Government Investment Issues	of which: Malaysian Government Securities	Corporate	Total
2003	115.5		115.5	1,086.2	1,201.7
2004	8,407.9	835.0	7,572.9	3,236.9	11,644.8
2005	7,950.6	5.0	7,945.6	7,387.1	15,337.7
2006	15,526.5	901.9	14,624.6	10,357.3	25,883.8
2007	29,660.4	571.5	29,088.9	14,344.4	44,004.8
2008	29,104.8	152.8	28,952.0	13,753.3	42,858.1

Bond Pricing Agency

Investors and issuers in the Malaysian debt securities and sukuk market may obtain information on the prices of all ringgit-denominated bonds and sukuk from a bond pricing agency. This is a private sector-led initiative, developed with the support of key bond market players, to complement the Government's objective of building a more efficient, sophisticated and liquid bond and sukuk market. A bond pricing agency must provide daily independent and objective fair values for all ringgit-denominated bonds and sukuk (excluding irredeemable convertible unsecured loan stocks), which will also help facilitate daily mark-to-market valuation of bond and sukuk portfolios. Any entity that wishes to carry on the business of providing bond and sukuk prices must be registered with the SC pursuant to the *Guidelines on the Registration of Bond Pricing Agencies*, issued by the SC on 25 January 2006.

Bond Pricing Agency Malaysia Sdn Bhd (BPAM, formerly known as Bondweb Malaysia Sdn Bhd) was registered on 18 April 2006 as the country's first bond pricing agency to deliver pricing and information services exclusively on the ringgit bond and sukuk markets. BPAM currently provides daily evaluated prices for nearly 2,000 bonds and sukuk in the domestic market which is used by issuers, traders and investors alike.

BPAM has constructed a series of bond indices comprising Malaysian ringgit-denominated, long-term, investment-grade conventional and Islamic securities. The BPAM Bond Index Series will allow its users to pick and choose any index based on its principle; index type and tenure. As of 30 September 2008, the main index, The FiiX All Bond Index (Index) consisted of 695 bonds with an aggregate market capitalisation of RM385 billion. The index constituents undergo calculation, review and rebalancing on a daily basis. The index as at January 2009 is shown in Appendix 16.

Authorised Depository Institution

To subscribe for or trade in debt securities and sukuk, an investor must open an account with an Authorised Depository Institution (ADI). ADIs are licensed financial institutions that are members of RENTAS and are allowed by Bank Negara Malaysia to hold Scripless Securities Trading System (SSTS) securities on behalf of customers that are not members of the SSTS. For members of the SSTS, Bank Negara Malaysia is the authorised depository, crediting bondholders with scripless bonds for trading and transfer according to the *Code of Conduct and Market Practices for Scripless Trading*, and recording the holdings and transactions of each SSTS member institution. ADIs offer protection to investors with regard to payment of interest and redemption proceeds. They ensure secrecy of accounts, issue statutory acknowledgement receipts and monthly statements detailing account holdings and transfers, and carry out the various responsibilities of depository institutions to their customers.

Dealers that act as ADIs maintain two accounts with the SSTS: one for their own holdings, and another for all the securities they hold in custody, through which non-SSTS members' transactions are cleared and settled. ADIs are required to maintain a separate account for each customer.

Investing in Unlisted Debt Securities and Sukuk

The Malaysian bond market consists of listed and unlisted bonds. Unlisted bonds are largely traded over-the-counter (OTC) while listed bonds are traded through Bursa Malaysia.

Most trading takes place in the OTC market, where quotes are typically obtained directly from money brokers and dealers over the telephone. Institutions would either have to be registered or licensed by the SC to trade in bonds for their own or their clients' accounts. An agreement concluded over the telephone is then followed up with a confirmation order in writing. An investor can place an order with a dealer at his desired price and amount. However, the trade will only be concluded when the dealer can find a corresponding seller in the OTC market.

Financial institutions maintaining their own bond inventories usually provide their market bid or offer prices to their clients. (A list of the financial institutions and money brokers are provided in Appendices 9 and 10, respectively). In addition, principal dealers (PDs) are obliged to provide 2-way quotes for benchmark government securities. Information on Government securities and bond indices are also available on the tickers on Bloomberg and Reuters. (Please refer to Appendix 14).

MGS are available to retail investors in minimum nominal denominations of RM1,000 and in multiples of RM1,000. Retail investors can purchase MGS in the secondary market via a PD or other financial institutions that are ADIs. As government securities are scripless, transactions are reflected as accounting entries. Retail investors need to maintain a current or savings account with an ADI for cash settlement of their transactions, as well as for the crediting of semi-annual coupon payments and principal repayment upon maturity of the securities. Currently, direct investment in MGS by retail investors is not widely practiced, and is typically limited to high-net-worth individuals.

Government securities can also be purchased in the primary market exclusively through a Principal Dealer. These securities are issued by way of either market auction or private placement. Malaysian Treasury Bills and Malaysian Islamic Treasury Bills are issued weekly whereas 3, 5, 10, 15 and 20-year bonds which include MGS and GII are issued according to the issuance calendar. All short-term and long-term Government papers, either conventional or Islamic, are typically auctioned through a variable-rate multiple-price auction format (also known as English auction). Occasionally, a private placement is also conducted. Private placements are bilateral placements of specific MGS issues to identified institutions at the request or approval from the Ministry of Finance.

Corporate debt securities, by market practice, are traded in minimum lot sizes of 5 million, and in multiples of 5 million per lot. Although odd-lot trading is possible, the prices of such transactions may not reflect market prices. All the other operational requirements for trading, irrespective of MGS or PDS, are similar.

A particular feature of the Malaysian debt securities and sukuk market is bonds or sukuk that are structured as excluded offers, excluded invitations or excluded issues, for which a prospectus is not required. Pursuant to Schedules 6 and 7 of the CMSA, these bonds or sukuk can only be purchased in the secondary market by "sophisticated investors". These investors are defined as individuals whose total net personal assets exceed RM3 million or its equivalent in foreign currencies; a corporation with total net assets exceeding RM10 million or its equivalent in foreign currencies based on its last audited accounts; and a person who acquires them as principal for an aggregate consideration of not less than RM250,000 or its equivalent in foreign currencies for each transaction.

An Electronic Trading Platform (ETP) for the Malaysian bond market had been launched by Bursa Malaysia in March 2008, in line with the National Bond Market Committee's mandate to develop a single electronic trade reporting and trading platform for the domestic bond market. The ETP is registered as an electronic facility under Section 34 of the CMSA and is operated by Bursa Malaysia Bonds Sdn Bhd, a wholly-owned subsidiary of Bursa Malaysia. The ETP, amongst others, provides the following facilities:

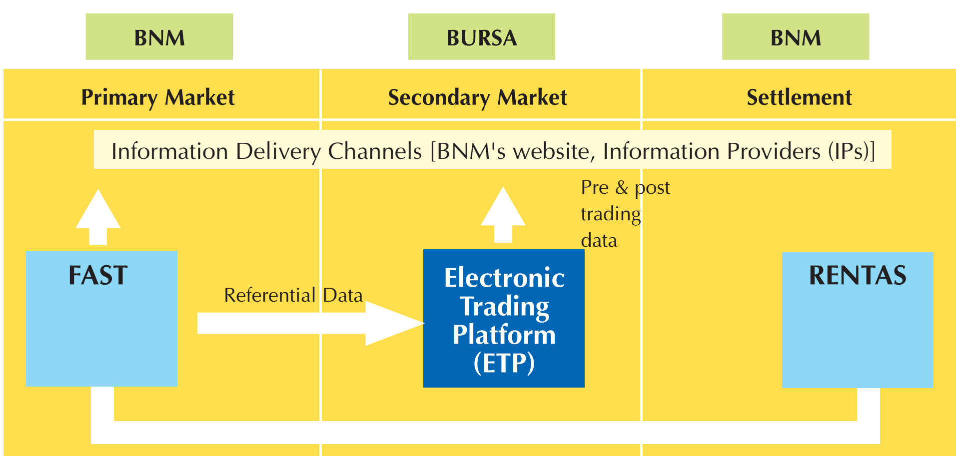
- Mandatory reporting of all secondary bond market transactions by taking over the function from the Bond Information Dissemination system (BIDS) which was operated by Bank Negara Malaysia;

- An electronic order matching platform for the matching of bid and ask quotes for MGS, GII and corporate issues; and

- An advertisement and a negotiation platform, where the dealers can advertise and negotiate for 'one-to-one' deals for all debt securities and sukuk.

The trading platform, developed through close co-operation between Bank Negara Malaysia, the SC and market participants, is expected to enhance price transparency and liquidity in the secondary bond market as well as increase efficiency in the secondary trading activities.

Chart 7.4: Link between primary and secondary markets through ETP and settlement



Purpose		
• Creation of primary issuance: debt securities & repo and money market • Tender/non-Tender • Rating updates • Daily IYTM for Govt / BNM, weekly IYTM for PDS • MGS Indicative Prices • Auction Calendar	• Trading platform for debt securities • OTC Deal reporting e.g. Sale and Purchase, Repo and SBL. • Information dissemination	• Depository & registrar for scripless securities • Interbank funds transfer & securities settlement • Internal book-entry & accounting • International settlement with major custodian banks & international central securities depository

Investing in Listed Debt Securities and Sukuk

Bonds and sukuk which are listed on Bursa Malaysia may be purchased through a dealer that is a member of the Exchange, such as investment banks or through remisiers. To trade in listed bonds and sukuk, investors are required to open a Depository Account operated by Bursa Malaysia Depository Sdn Bhd. These accounts are maintained by investment banks that are members of the Exchange, acting as authorised depository agents. The depository account works on the principle of a book-entry system or electronic clearing and settlement, and represents ownership and movement of the listed bonds and sukuk. Institutional investors may open depository accounts directly with Bursa Malaysia Depository.

Investors need to provide their depository account numbers when buying or selling listed bonds and sukuk on the Exchange. Listed bonds and sukuk are normally traded in board lots of 1,000 units. Information on prices of listed bonds is readily available on the ETP.

Investing in Bond Funds

As investors become increasingly more knowledgeable and sophisticated about their investments, there is a marked shift in retail investors' preference for unit trust bond funds. Net asset value of bond funds and fixed income funds grew to RM18.5 billion as at end-December 2008.

Numerous bond funds are available in Malaysia. A bond fund is typically a fund that invests primarily in bonds or other debt securities, offering investors a regular stream of income. Depending on the fund's investment objectives, it may either focus on a particular type of bond or debt securities, or a combination of bond types.

Investments in bond funds can be made through three avenues:

(i) Unit trust funds which operate open-end funds, pool investors' capital and invest in stocks, bonds and other securities. Units in the open-end fund are purchased from the fund itself through the fund sponsor or a broker and there is no secondary market. The fund sponsor is a licensed fund management company that organises the investment strategy, registers the organising and offering documents, maintains a unit-holder registry and supervises all other aspects of the fund's administration. Units are redeemable and sold at net asset value (NAV) after deducting fund fees.

(ii) Investing in exchange-traded funds (ETFs) on Bursa Malaysia. Currently, only one ETF is listed and traded on the Exchange, i.e. the ABF Malaysia Bond Index Fund (ABF Malaysia). The returns and performance of ABF Malaysia track the interest rates and yield movements of the underlying portfolio of government and selected quasi-government securities. ETFs may be bought and sold on Bursa Malaysia by both residents and non-residents, through a licensed remisier or stockbroker, in denominations of as little as 100 units. As they are traded on Bursa Malaysia, investors have instant access to prices and trading, and the flexibility to buy or sell units through remisiers or the broking system. A separate trading account with a stockbroking firm and a custody account with Bursa Malaysia's Central Depository System (CDS) must be set up for this purpose. ABF Malaysia makes regular income distributions from the coupons received from the underlying portfolio.

(iii) Closed-end fund companies, which sell a fixed number of units in the fund to investors via an initial public offering. These units are then traded on the secondary market, where prices may either be above or below their NAV. Close-end fund shares are not redeemable, and the Fund is not required to buy back the units from investors.

Reporting of Trades Done

All trading in the OTC market must be reported in the ETP, where the seller of the securities will key in the deal and buyers will confirm within a stipulated 10 minutes' cut-off time from trade execution.

Normal business hours for a securities trade is as per standard settlement or value spot, i.e. 2 business days (T+2), from 9.00 am to 4.30 pm Monday to Friday, excluding holidays.

Market Convention

The market convention for the Malaysian debt securities and sukuk market is as listed in Appendix 7.

Settlement of Trades

All securities trades are generally settled based on a DvP basis. For all government securities and scripless corporate debt securities, ownership and transfers are reflected as book-entries in the ADIs' custody accounts with Bank Negara Malaysia in RENTAS. For non-RENTAS members such as institutional investors and other financial institutions, scripless securities can be transacted via their ADIs. Cash payments of coupons and dividends as well as redemption proceeds will be forwarded to investors via their respective ADIs.

The settlement of the primary and secondary market transactions in government securities and unlisted corporate debt securities take place through the SSTS, which is part of RENTAS. RENTAS, established by Bank Negara Malaysia in 1999, comprises the Inter-bank Funds Transfer System (or IFTS), which deals with large-value fund transfers, and the SSTS, which allows the book-entry settlement and recording of holdings of scripless debt securities. A sale/purchase of securities between 2 parties involves a book entry and intra-day settlement of funds in the cash settlement account maintained with Bank Negara Malaysia. RENTAS, which has straight-through-processing (STP) capability, will process, transfer and settle inter-bank funds and scripless transactions simultaneously in real time. It is a DvP Model 1 system, i.e. securities and funds settled gross throughout the day.

Settlement of Foreign Currency-denominated Debt Securities and Sukuk

Debt securities and sukuk denominated in US dollars will be settled in RENTAS on DvP basis while those denominated in other foreign currencies may be settled on a non-DvP basis. The expansion of the RENTAS infrastructure to include USD-MYR transactions via the implementation of the Payment versus Payment and DvP links with Hong Kong in 2006 and 2007, respectively, has facilitated the simultaneous settlement of ringgit and USD payments and securities during Malaysian business hours. This has enabled market participants to better manage their foreign exchange settlement risk.

International Settlement of Debt Securities and Sukuk

Scripless securities, including MGS and selected debt securities and sukuk, can also be settled internationally via major global custodian banks and international Central securities depositories (ICSDs), such as Euroclear and Clearstream. Both these ICSDs currently appoint selected ADIs, which are clearing members of RENTAS, as their clearing agents in Malaysia. Non-residents or offshore investors may also individually appoint ADIs that are RENTAS members as custodians of their investments. Most financial institutions are also members of the Society for Worldwide Inter-bank Financial Telecommunication (SWIFT), which facilitates the efficient transmission and confirmation of cross-border payment and settlement instructions in foreign currencies.

8

SECONDARY MARKET ACTIVITIES

Secondary market activities in debt securities and sukuk are conducted through banking institutions that are either registered or licensed by the SC. The dealers of banking institutions also transact for their own respective organisations. To promote the standards and professionalism of the dealers in the financial market, an association known as Persatuan Pasaran Kewangan Malaysia (PPKM or ACI-Malaysia) was established in 1974, with the objective of providing an association for those actively engaged in the wholesale financial markets in Malaysia. PPKM is also actively involved in education to develop and enhance the knowledge and skills of its members.

In its efforts to upgrade its members' knowledge and skills, PPKM conducts qualifying examinations for new members since December 1995. Only dealers that have passed the PPKM examinations are qualified to participate in the Malaysian financial markets. PPKM also organises talks, seminars, conferences, meetings and similar gatherings for its members and the public, to improve and update their knowledge of the financial markets. Members of PPKM are obliged to observe the Malaysian Code of Conduct for Principals and Brokers in the Wholesale Money and Foreign Exchange Markets. They are also obliged to observe the International Code of Conduct and Practice for the Financial Markets, published by the ACI - a global association for financial markets. Essentially, the Malaysian financial market has adopted a globally accepted minimum standard for its dealers.

To promote secondary market activities and increase liquidity for debt securities, various activities are permitted. These include repos, sell and buy-back, and regulated short-selling. Bank Negara Malaysia has also introduced the Institutional Securities Custodian Programme to enhance secondary government bond trading, especially for off-the-run issues.

In the secondary market, MGS benchmarks, particularly the 3, 5 and 10-year issues, are the most actively traded and are commonly referred to as on-the-run issues, while the non-MGS benchmarks are referred to as off-the-run issues. In the sovereign debt market, principal dealers (PDs) are appointed by Bank Negara Malaysia to provide continuous two-way prices for benchmark securities, as they are obliged to make market. By 9 am every morning, all PDs will submit and advertise their indicative bids and offers on all benchmark securities via the ETP. Non-PD financial institutions may also choose to make market by quoting two-way prices in the ETP.

For Islamic securities, the SC's Shariah Advisory Council has agreed to accept the principle of *bai' dayn,* i.e. debt trading, as one of the concepts for the development of Islamic capital market instruments. This is based on the views of some Islamic jurists who have allowed this concept subject to certain conditions that can be met when there is a transparent regulatory system safeguarding the *maslahah* (interests) of market participants.

Principal Dealer and Islamic Principal Dealer

The Principal Dealer (PD) system in Malaysia was introduced in 1989 as part of initiatives to develop the primary and secondary markets for public debt securities. Specifically, the PD system aims at building a stable demand for Government debt securities, Bank Negara Malaysia (BNM) papers and BNM Sukuk papers, and promoting active trading of these papers in the secondary market to create liquidity.

The increasing importance of Islamic finance and the prominent role played by Islamic banks in supporting this development prompted BNM to introduce the Islamic Principal Dealer (i-PD) system in July 2009 to complement the existing PD system for conventional public debt securities. Under the PD and i-PD systems, BNM appoints selected banking institutions as both PDs and i-PDs based on a set of criteria, including their ability to handle large-volume transactions as measured by their participation in the primary auctions, secondary market trading volumes and their overall risk management capabilities.

PDs and i-PDs are obliged to bid for all Government and BNM papers in the primary market (i-PDs are, however, only required to bid for Islamic Government and BNM papers), and to provide two-way price quotations for benchmark securities under all market conditions to ensure liquidity in the secondary market. PDs are additionally required to bid in money market and repo auctions conducted by BNM from time to time.

In recognition of the obligations that PDs and i-PDs undertake, BNM accords them certain privileges which, among others, include the ability to deduct the entire holdings of Government and BNM papers based on acquisition cost from their eligible liabilities (EL) base for Statutory Reserve Requirement computation, and they are eligible to participate as both borrower and lender for securities that are specified by BNM under the Securities Borrowing and Lending (SBL) Programme.

BNM undertakes half-yearly assessments on PDs' and i-PDs' performances in the primary and secondary markets to ensure PDs and i-PDs perform their obligations effectively.

PDs are granted the following privileges in return for the greater responsibilities entrusted to them:

1. Allowed to participate as a borrower or lender under the Securities Borrowing and Lending Guidelines;

2. Able to net-off actual holdings of specified RENTAS securities in banking books from the Eligible Liabilities base;

3. Eligible to continuously view bid-to-cover ratio for each securities auction until the closing time ; and

4. Allowed to amend customers' original bids submitted through FAST for primary issuance.

A list of PDs and i-PDs appointed by BNM for 2009 – 2012 is provided in Appendix 8.

~~~~~~~~~~~

Investors in the Malaysian debt securities and sukuk market may avail themselves of the following activities designed to assist them in obtaining the highest returns on their holdings and to promote secondary market activities as well as to enhance liquidity:

Repurchase Agreement

A repurchase agreement (repo) is a transaction where securities are sold at a particular price by one party (repo seller) to the other (repo buyer), with a commitment on the repo seller's part to repurchase the equivalent securities from the repo buyer (and a
~~~~~~~~~~~

corresponding commitment on the repo buyer's part to sell the equivalent securities back to the repo seller) on a certain date and at a certain price; both the date and price are fixed as part of the transaction.

Repos may either be "cash-driven" or "securities-driven". In a cash-driven repo, the transaction is used to obtain cash funding. For securities-driven repo, the buyers are specifically seeking a particular identified security, mainly for the purpose of covering short-sale positions.

Repos in government securities are fully assigned, with collateral securities identified at the initiation of the trade. Repo proceeds include accrued interest. Typically, repos are conducted as "classic repos", with both initial and variation margins applied on the market values of collateral securities. The variation margin may be called when the fall in the value of the collateral securities exceeds a mutually agreed threshold. Collateral securities may also be replaced or substituted at any time upon mutual agreement; however, this is rarely done in the market.

Coupon income received during the term of the repo may be returned by the repo buyer to the repo seller via "manufactured dividends", or paid in cash on the date of coupon payment by the repo buyer to the repo seller. A popular treatment, however, is to conduct "coupon reinvestment", where the repo buyer retains the coupon payment and treats it like a partial early repayment of repo proceeds by the repo seller.

Repo auctions are conducted by Bank Negara Malaysia to complement clean money-market borrowing, as repo rates are generally traded 2 to 3 basis points lower than an unsecured or "clean" borrowing over a comparable maturity term. On occasion, Bank Negara Malaysia will also provide liquidity under its standing facility using standard repos, typically bilaterally with market participants who experience liquidity shortages at the end of the day.

Benchmark or "specials" repos are securities-driven transactions offered by Bank Negara Malaysia to effectively lend specific securities, which in turn are either used to cover short-selling activities or potential settlement failures by the day's end. Bank Negara Malaysia conducts benchmark repo auctions on a daily basis, at T+1 settlement. Securities-driven repo auctions are conducted separately for each security on offer. Interested market participants may also approach Bank Negara Malaysia directly via "reverse enquiries" to request specific securities via bilateral repos, subject to availability. Due to the scarcity of and high demand for MGS benchmarks, securities-driven repo rates are transacted below normal repo rates, typically at least 10 basis points below the equivalent average unsecured inter-bank money market rates.

Institutional Securities Custodian Programme

The Institutional Securities Custodian Programme (ISCAP) was launched in January 2005, to enhance secondary bond trading, especially of "off-the-run" issues. It supports Bank Negara Malaysia's strategic goal of improving bond market liquidity by releasing captive holdings of bonds that are usually held to maturity by institutional investors and financial institutions. The ISCAP allows institutions and financial institutions that choose to participate in this programme to lend a pre-defined set of scripless securities (non-collateralised lending) to Bank Negara Malaysia in exchange for a lending fee. Bank Negara Malaysia will use these securities as part of its repo operations to manage liquidity in the interbank market.

Sell and Buy-back Agreement

A Sell and Buy-back Agreement (SBBA) is an Islamic money-market transaction between two parties, in which an SBBA seller sells Islamic assets to an SBBA buyer at an agreed price; subsequently, both parties enter into a separate agreement where the buyer promises to sell back the said asset to the seller at an agreed price.

Securities Borrowing and Lending

A securities borrowing and lending (SBL) transaction involves an exchange of securities between two parties (lender and borrower) for a pre-determined period of time, to meet the temporary needs of either or both parties - typically, dealers who need securities to support their trading activities. Securities borrowers are generally required to provide collateral to ensure performance of redelivery obligations. The lender will earn a fee as consideration for the loan of the securities. Ownership of the securities will be transferred from the borrower to the lender with regard to the collateral, and from the lender to the borrower in relation to the securities loaned. Both parties are, however, entitled to the coupon payments on the collateral or securities lent for the duration of the SBL transaction. The lender or borrower may recall the collateral or securities lent at any time during the tenure of the SBL transaction after serving adequate notice, subject to payment of an early-termination fee. At the end of the SBL transaction, the borrower will return the securities borrowed to the lender and the lender will return the collateral to the borrower.

All ADIs are required to sign the SBL Master Agreement prior to entering into an SBL transaction. Only PDs are allowed to participate as a lender and borrower of securities. Other approved dealers and non-licensed institutions may only participate as a lender, while non-residents are not allowed to conduct SBL transactions.

When-issued Trading

Commencing from the tender announcement date after stock creation in the FAST system, "when-issued" (WI) trading begins. The WI trading period will be open until the tender results are announced to the market. The value for the settlement date of WI trades must be on or after the securities issuance date, but the standard value date is 2 business days (value spot). WI trading is aimed at facilitating the price discovery process.

Regulated Short-selling

Regulated short-selling of MGS is permitted. This had been initially allowed for PDs to facilitate more efficient execution of their market making responsibilities. Since November 2005, regulated short-selling has been extended to other inter-bank participants to increase liquidity in the domestic bond market, accelerate price corrections in overvalued securities, facilitate the hedging of interest rate risk and promote activity in the repo as well as the SBL markets.

All authorised inter-bank institutions (AIIs) and investment banks can undertake short-selling transactions. All such transactions must be the seller's own proprietary position, and not for third parties.

Eligible securities allowed in a regulated short-selling transaction are specific issues of MGS with an outstanding nominal amount of at least RM2 billion and a remaining tenure to maturity of 10.5 years or less, at the time when the short-selling position is created. Each participant's short position should also not exceed 10% of the outstanding nominal amount of each eligible securities issue.

Only covered short-selling is allowed; the short-sold securities must be covered via repo or securities borrowing. With the exception of intra-day transactions, naked short-selling of eligible securities is not yet allowed in order to minimise market volatility and excessive speculation. All short-sales of MGS must be reported in the ETP and distinguished from normal sales via a Short-Sale indicator checkbox. PDs also regularly disclose outstanding short-sale positions by maturity buckets to Bank Negara Malaysia on a weekly basis.

With the inception of the ISCAP, market participants can now borrow securities via repo or SBL transactions with Bank Negara Malaysia to cover their short positions and manage settlement risks effectively. To ensure reasonable access to repos and SBLs as short-covering mechanisms, participants must execute the Global Master Repurchase Agreement (GMRA) or the Securities Borrowing and Lending agreement with at least two other market participants (excluding Bank Negara Malaysia).

9

INCENTIVES AND FOREIGN EXCHANGE ADMINISTRATION RULES FOR ISSUING AND INVESTING

Tax Incentives

Tax Treatment for Issuers

(a) Issuance for PDS are exempted from stamp duty

All instruments relating to the issuance and transfer of PDS approved by the SC are exempted from stamp duty, with effect from 1 July 2000.

(b) Tax deductions on expenses incurred in the issuance of sukuk

Expenses incurred in the issuance of sukuk will be tax-deductible until Year of Assessment 2010.

(c) Exemption from stamp duty

All instruments for the purpose of securitisation approved by the SC are exempted from stamp duty, effective 1 January 2001.
All instruments for the purpose of a sukuk issuance approved by the SC are exempted from stamp duty.

(d) Securitisation exempted from real property gains tax

Real property gains tax in respect of chargeable gains accrued on the disposal of any chargeable assets to or in favour of an SPV, or in connection with the repurchase of the chargeable assets, to or in favour of the person from whom the assets had been acquired, is exempted for the purpose of a securitisation transaction.

(e) Tax-neutral for the originator and SPV in a securitisation

Tax-neutral framework in computing income-tax treatment for the originator and SPV involved in a securitisation transaction approved by the SC.

(f) Extension of tax incentives for sukuk

Extension of deduction on expenses for sukuk issued under *Musyarakah, Mudharabah, Ijarah* and *Istisna'* for another 3 years until the Year of Assessment 2010.

(g) Tax deductions for SPV in a sukuk transaction

Income-tax exemption is granted to an SPV which is established solely for issuance of sukuk. A company establishing an SPV is given a tax deduction on the SPV's cost of issuing Islamic securities, effective 2007. SPVs set up for Islamic financing purposes are not required to comply with the administrative requirements under the Income Tax Act 1967.

(h) Tax exemption from the Year of Assessment 2009 until the Year of Assessment 2011 is granted to a person licensed or registered under the CMSA in respect of income derived from dealing in sukuk and advising on corporate finance relating to the arranging, underwriting and distributing of sukuk that originate from Malaysia and issued or guaranteed by the Government of Malaysia or approved by the SC.

Tax Treatment for Investors

(a) Exemption on interest income from ringgit-denominated debt securities and sukuk

Resident individuals, unit-trust companies and listed closed-end fund companies are exempted from income tax on interest income and profits earned from ringgit-denominated sovereign bonds, as well as PDS and sukuk approved by the SC.

Non-resident investors are also exempted from withholding tax on interest income and profit earned from ringgit-denominated debt securities issued by the Malaysian Government as well as PDS or sukuk approved by the SC.

(b) Exemption on interest income from foreign currency-denominated sukuk

Resident investors are exempted from payment of income tax on the profits received from foreign currency-denominated sukuk issued in Malaysia.

Profits or income from non-residents' investments in foreign currency-denominated sukuk issued in Malaysia are fully exempted from withholding tax.

(c) No stamp duty on transfers of MGS, PDS and sukuk

There is no stamp duty relating to the transfer of MGS, PDS or sukuk approved by the SC.

(d) Capital gains tax

There is no capital gains tax in Malaysia.

Treatment under Foreign Exchange Administration Rules

In relation to a ringgit-denominated issue by an MDB, MFI, foreign sovereign, foreign quasi-sovereign and foreign multinational companies (non-resident issuers):

(i) Use of proceeds raised

The ringgit funds raised from the issuance of ringgit-denominated bonds may be used either in Malaysia or overseas. However, the remittance of such funds abroad must be in foreign currency.

(ii) Maintenance of foreign currency accounts

There is no restriction on non-resident issuers and investors of ringgit-denominated bonds maintaining foreign currency accounts with licensed onshore banks[1] and International Islamic Banks in Malaysia for any purpose, including meeting any payment obligation arising from the issuance of bonds or investments in Malaysia.

(iii) Maintenance of ringgit accounts

There is no restriction on non-resident issuers and investors of ringgit-denominated bonds maintaining ringgit accounts (known as External Accounts) with licensed onshore banks in Malaysia.

(iv) Hedging

A non-resident issuer may enter into forward foreign exchange contracts or swap arrangements with licensed onshore banks, to convert the ringgit funds raised into any foreign currency, except that of Israel.

A non-resident issuer is allowed to enter into interest-rate swap arrangements with licensed onshore banks in Malaysia.

A non-resident investor of ringgit-denominated bonds issued by a non-resident issuer may also enter into forward foreign exchange transactions or swap arrangements with licensed onshore banks to hedge its ringgit exposure into any foreign currency, except that of Israel.

In relation to a foreign currency-denominated issue:

(i) Maintenance of foreign currency funds

Non-resident issuers and investors are free to maintain foreign currency accounts with licensed onshore banks[1] and International Islamic Banks in Malaysia for any purpose.

---

[1] Licensed onshore bank refers to:

(a) Commercial banks licensed under the Banking and Financial Institutions Act 1989.

(b) Islamic banks licensed under the Islamic Banking Act 1983.

(c) Investment banks licensed both as a merchant bank pursuant to Section 5 of the Banking and Financial Institutions Act 1989 and a dealer pursuant to Section 61 of the Capital Market and Services Act 2007 and duly established pursuant to the Guidelines on Investment Banks jointly issued by Bank Negara Malaysia and the SC.

(ii) Hedging

Non-resident issuers and investors may hedge up to the full amount of their foreign exchange and interest/profit exposure vis-à-vis:

(a) Ringgit with licensed onshore banks in Malaysia.

(b) Foreign currency with licensed onshore banks in Malaysia or other non-resident financial institutions.

Resident issuers and investors may hedge up to the full amount of their foreign exchange and interest/profit exposure with licensed onshore banks in Malaysia.

In relation to a foreign investor:

(a) Non-residents are free to invest in Malaysia in any form.

(b) There are no restrictions on the repatriation of capital, profits and income earned from Malaysia, including salaries, wages, royalties, commissions, fees, rental, interest, profits and dividends.

(c) To complement their investment strategies, non-residents may obtain financing from licensed onshore banks, both in ringgit and foreign currency, and enter into foreign-exchange contracts with licensed onshore banks to actively manage currency risks arising from investments in ringgit assets.

(d) Non-residents are also free to convert foreign currency into ringgit with licensed onshore banks, and *vice versa*.

(e) Investment by residents in foreign currency-denominated bonds and sukuk issued in Malaysia will be in accordance with the prevailing foreign exchange administration policy on investment in foreign currency assets.

Incentives Granted by Bank Negara Malaysia

For ringgit-denominated bonds and sukuk issued by MDBs and MFIs:

(i) Liquidity treatment under the new liquidity framework for banking institutions

The ringgit-denominated bonds issued by MDBs or MFIs will be classified as Liquefiable Assets under the new liquidity framework for resident banking institutions.

(ii) Risk weighting under the risk-weighted capital-ratio framework

The risk weight accorded to ringgit-denominated bonds issued by MDBs or MFIs is 0%.

(iii) Deduction from eligible liabilities for statutory reserve

The ringgit-denominated bonds issued by MDBs or MFIs held by resident banking institutions are deductible from their eligible liabilities for purpose of computation of statutory reserve requirements.

(iv) Low-risk assets of resident insurers

The ringgit-denominated bonds issued by MDBs or MFIs qualify as low-risk assets that resident insurers may hold to support their solvency margins.

(v) Acceptance as collateral under RENTAS

The ringgit-denominated bonds issued by MDBs or MFIs are acceptable as collateral under RENTAS.

(vi) Acceptance as eligible securities to be transacted under re-purchase operations

The ringgit-denominated bonds issued by MDBs or MFIs are acceptable as eligible securities to be transacted under repurchase operations with Bank Negara Malaysia.

(vii) Single-customer limit

The holdings of ringgit-denominated bonds issued by MDBs or MFIs that are held by banking institutions are subject to these entities' respective single-customer limits.

10

HISTORY OF BOND PERFORMANCE IN MALAYSIA

The debt securities and sukuk issued in the Malaysian market are mostly rated from AAA to BBB, although most issues tend to cluster around the AA category. Despite this wide variance in ratings, the rate of default of debt securities and sukuk in the Malaysian market is commendably low – a reflection of these instruments as a safe investible asset class.

The corporate debt securities and sukuk market had withstood severe stress during the 1997/1998 Asian financial crisis, and again during the economic slowdown in 2001 following the collapse of the IT bubble in the advanced economies. Notably, corporations that funded their long-term capital investments or business expansion projects with long-term debt securities and sukuk had escaped the negative effects of credit crunches, interest rate spikes and exchange rate depreciation. This had contributed to the stable performance of the debt securities and sukuk.

Besides avoiding the risks of currency, maturity and asset-liability mismatches, only debt securities and sukuk that carry investment-grade ratings from the domestic rating agencies had been allowed to be issued in the Malaysian market during the early years. Mandatory rating, together with the requirement for investment-grade ratings (since removed as the market matured), had helped boost investor confidence during the domestic debt securities and sukuk market's nascent phase.

The market integrity and confidence established during the formative years, which had led to successful redemptions of debt securities and sukuk upon maturity, had in turn engendered confidence in and acceptance of long-tenured corporate debt securities and sukuk, some of which stretch for over 30 years. The first fixed rate 15-year bond, issued in 1993 by an independent power producer, was redeemed in full upon maturity in 2008.

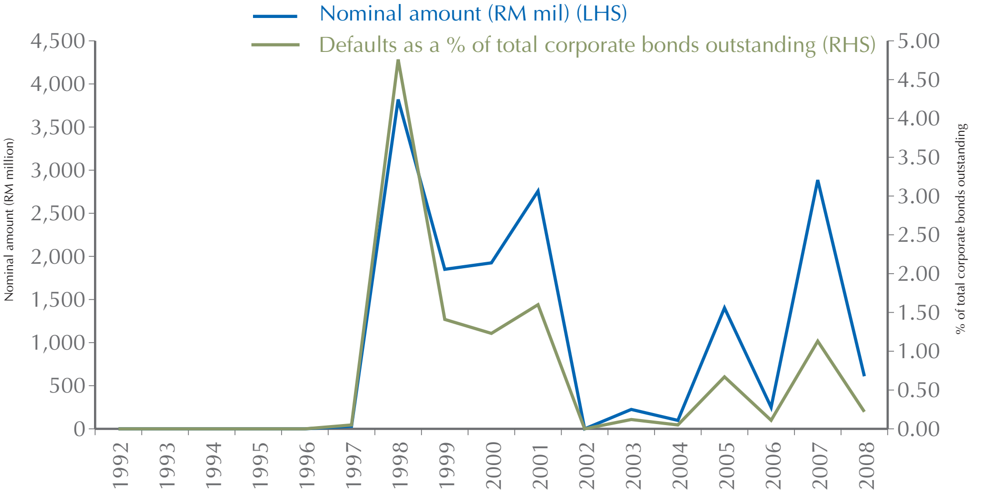
Default History

In the interest of market transparency and to promote investor education, RAM Rating Services Berhad (RAM Ratings) had published its first default study in 1999. It now produces this report on an annual basis. This report is available to the public through its website. In a similar vein, Malaysian Rating Corporation Berhad (MARC) began publishing its annual default studies in 2006 for its rated portfolio between 1997 and 2005. Since then, it has been producing these reports on an annual basis.

Investors now have full access to analyses of corporate default experiences, ratings-default relationships, and rating migration or stability matrices from both CRAs.

From an overall market perspective, there had been no corporate bond default until 1997, when an issuer defaulted on a nominal issue amount of RM30 million, which at that time amounted to 0.05% of the total outstanding value of corporate bonds in the domestic market. The number of defaults, however, escalated to 16 issuers with a total nominal value of RM3.82 billion in 1998, during regional financial crisis. The defaulted bonds accounted for 4.76% of the total value of outstanding bonds that year. Nonetheless, the default ratio declined sharply to less than 2% in the following 3 years, i.e. from 1999 to 2001. It eased to below 1% in 2005 and 2006, edged up to 1.13% in 2007 before easing to 0.22% in 2008, as presented in Table 10.1. On the whole, the default ratio averaged at only 0.67% for the 17-year period between 1992 and 2008.

Chart 10.1: Corporate bond defaults (excluding short-term securities)



Source: RAM Rating Services Berhad and Malaysian Rating Corporation Berhad

Table 10.1: Corporate bond defaults - by number of issuers, amount and percentage of outstanding amount

Year	No. of defaulted issuers (a)	Nominal value of defaulted corporate debt securities and sukuk (RM million) (b)	Total outstanding corporate debt securities and sukuk (RM million) (c)	Defaults as a % of outstanding corporate debt securities and sukuk (b/c)
1992	0	0	11,456	0.00
1993	0	0	15,096	0.00
1994	0	0	24,056	0.00
1995	0	0	32,013	0.00
1996	0	0	46,755	0.00
1997	1	30	64,350	0.05
1998	16	3,820	80,252	4.76
1999	4	1,850	131,000	1.41
2000	7	1,925	157,000	1.23
2001	4	2,757	172,030	1.60
2002	0	0	163,900	0.00
2003	3	225	185,010	0.12
2004	2	98	187,220	0.05
2005	9	1,402	210,150	0.67
2006	1	250	221,300	0.11
2007	7	2,886	256,430	1.13
2008	5	610	282,480	0.22

Source: RAM Rating Services Berhad and Malaysian Rating Corporation Berhad

GLOSSARY AND ABBREVIATIONS

ADI	Authorised Depository Institution. These are licensed on-shore financial institutions and investment banks in Malaysia which act as the depository for all bonds and sukuk.
BAFIA	The Banking and Financial Institutions Act 1989, to provide for the licensing and regulation of institutions carrying on business as a bank, finance company, merchant bank, discount house and money broker, and for the regulation of institutions undertaking certain other financial businesses.
Bonds	Bonds refers to debt papers, excluding short-term papers. For instance, corporate bond, therefore, means long-term debt papers issued by a corporation.
BPA	Bond pricing agency, the objective of which is to provide daily independent and objective fair values for all ringgit-denominated bonds, and to facilitate daily mark-to-market valuation of bond portfolios. Bond Pricing Agency Malaysia Sdn Bhd is the country's first BPA.
Cagamas	Cagamas Berhad, the national mortgage corporation, issues debt securities to finance the purchase of housing loans and other consumer receivables from financial institutions, selected corporations and the Government.
CBA	The Central Bank of Malaysia Act 1958 (revised 1994), to provide for the establishment, administration, powers and duties of a central bank in Malaysia.
CMSA	The Capital Markets and Services Act 2007, which governs all market intermediaries, markets and activities in the Malaysian capital markets.
Corporate bonds	Corporate bonds are long-term debt securities issued by corporations.

CP	Commercial papers, a type of short-term debt securities.
Debt securities	These are debt securities which typically involve an element of interest payment. Debt securities include both short-term and long-term securities.
ETF	Exchange Traded Fund.
ETP	Electronic Trading Platform, an electronic trading platform for bonds and sukuk.
FAST	Fully Automated System for Issuing/Tendering, for the issuance and tendering of debt securities and sukuk. It is the entry point for primary activities of securities issuance, money-market tenders and repo tenders.
GII	Government Investment Issues are long-term dividend-bearing sukuk issued by the Government of Malaysia.
Government Securities	Government securities are also known as Public Securities. They are issued by the Government of Malaysia and Bank Negara Malaysia.
IS Guidelines	The Securities Commission's *Guidelines on the Offering of Islamic Securities* (issued on 26 July 2004), which stipulate the criteria that must be met with regard to any issue, offer or invitation of Islamic securities that comes under the ambit of the CMSA.
IOSCO	The International Organisation of Securities Commissions. IOSCO is recognised as the world's most important international cooperative forum for securities regulatory agencies; it plays a key role in setting international standards for securities regulation, identifying issues affecting global markets, and making recommendations.
Notes	These are short to medium-term debt securities. Short-term notes are shorter than 1 year in tenure, while medium-term notes can vary between 1-5 years.

PDS	Private Debt Securities are also known as corporate debt securities.
PDS Guidelines	The Securities Commission's *Guidelines on the Offering of Private Debt Securities* (revised on 26 July 2004), which stipulate the criteria that must be met with regard to any issue, offer or invitation of private debt securities that comes under the ambit of the CMSA. However, any issue, offer or invitation of Islamic securities does not fall under these guidelines, but the IS Guidelines.
PPKM	Persatuan Pasaran Kewangan Malaysia, an association for those that are actively engaged in the wholesale financial markets in Malaysia.
Qualified issuers	For the purposes of issuance of bonds in Malaysia, these refer to the following: (a) MDBs (b) MFIs (c) Foreign governments (d) Agencies or national corporations of the Malaysian Government or foreign governments (e) Foreign multinational corporations (f) Resident corporations
RENTAS	Real-Time Electronic Transfer of Funds and Securities System, comprising the IFTS, which deals with large-value fund transfers, and the SSTS, which allows the book-entry settlement and recording of holdings of scripless debt securities. It is a DvP Model 1 system, i.e. securities and funds settled gross throughout the day.
RWCR	Risk-weighted capital ratio is a prudential ratio to be observed by all banking institutions.
SCA	The Securities Commission Act 1993.

Sophisticated investor	This refers to an individual whose total net personal assets exceed RM3 million or its equivalent in foreign currencies; a corporation whose total net assets exceed RM10 million or its equivalent in foreign currencies based on its last audited accounts; and a person who acquires securities as principal for an aggregate consideration of not less than RM250,000 or its equivalent in foreign currencies for each transaction.
Sukuk	These are securities structured to comply with Shariah principles, which prohibit the charging of interest. Sukuk include short-term and long-term papers. These may be issued by the public of private sectors.

WEBSITES FOR INFORMATION ON THE MALAYSIAN DEBT SECURITIES AND SUKUK MARKET

Bank Negara Malaysia	http://www.bnm.gov.my
Securities Commission Malaysia	http://www.sc.com.my
Malaysia's Foreign Exchange Administration System and Rules	http://www.bnm.gov.my/fxadmin
Fully Automated System for Issuing/ Tendering (or FAST)	http://fast.bnm.gov.my
Islamic Interbank Money Market	http://iimm.bnm.gov.my
Bursa Malaysia	http://www.bursamalaysia.com
Bond Info Hub	http://bondinfo.bnm.gov.my
AsianBondsOnline	http://asianbondsonline.adb.org
Malaysia International Islamic Financial Centre	http://www.mifc.com
RAM Rating Services Berhad	http://www.ram.com.my
Malaysian Rating Corporation Berhad	http://www.marc.com.my
Bond Pricing Agency Malaysia Sdn Bhd	http://www.bpam.com.my

APPENDIX 1:
MALAYSIA'S KEY ECONOMIC INDICATORS

	2006	2007	2008[p]	2009[f]
Population (million persons)	26.6	27.2	27.7	28.3
Labour force (million persons)	11.5	11.8	12.0	12.1
Employment (million persons)	11.2	11.4	11.5	11.5
Unemployment (as % of labour force)	3.3	3.2	3.7	4.5
Per Capita Income (RM)	20,885	23,115	25,796	24,541
(USD)	5,694	6,724	7,738	6,8127
NATIONAL PRODUCT (% change)				
Real GDP at 2000 prices[1]	1 5.8	6.3	4.6	-1.0 ~ 1.0
(RM billion)	475.2	505.4	528.8	528.9
Agriculture, forestry and fishery	5.4	2.2	3.8	-2.0
Mining and quarrying	-2.7	3.3	-0.8	-0.4
Manufacturing	7.1	3.1	1.3	-8.0
Construction	-0.5	4.6	2.1	3.0
Services	7.3	9.7	7.3	4.5
Nominal GNI	11.6	12.9	13.9	-2.9
(RM billion)	556.4	628.1	715.3	694.8
Real GNI	7.1	6.1	2.9	1.8
(RM billion)	454.6	482.2	496.1	504.9
Real aggregate demand	2 6.6	9.8	6.9	2.9
Private expenditure[2]	6.7	10.6	7.1	-0.3
Consumption	6.5	10.8	8.4	3.5
Investment	7.5	9.8	1.5	-17.7
Public expenditure	2 6.5	7.9	6.5	11.4
Consumption	4.9	6.6	11.6	7.3
Investment	8.4	9.3	0.7	16.6
Gross national savings (as % of GNI)	38.4	38.4	37.9	32.2

	2006	2007	2008[p]	2009[f]
BALANCE OF PAYMENTS (RM billion)				
Goods balance	134.6	127.7	170.1	108.1
Exports (f.o.b.)	589.7	605.9	664.2	495.8
Imports (f.o.b.)	455.2	478.2	494.1	387.6
Services balance	-6.9	2.4	1.7	-0.9
(as % of GNI)	-1.2	0.4	0.2	-0.1
Income, net	-17.3	-13.9	-25.4	-10.6
(as % of GNI)	-3.1	-2.2	-3.6	-1.5
Current transfers, net	-16.9	-15.7	-17.0	-16.6
Current account balance[3]	93.5	100.4	129.4	80.0
(as % of GNI)	16.8	16.0	18.1	11.5
Bank Negara Malaysia international reserves, net[4]	290.4	335.7	317.4	-
(in months of retained imports)	7.8	8.4	7.6	-
PRICES (% change)				
CPI (2005=100)[5] 3.6	2.0	5.4	1.5	~ 2.0
PPI (2000=100)[6]	5.1	6.7	8.2	-
Real wage per employee in the manufacturing sector	-1.4	2.2	-0.9	-

[1] *Beginning 2007, real GDP has been rebased to 2000 prices, from 1987 prices previously*
[2] *Excluding stocks*
[3] *Figures for the year 2008 are estimates*
[4] *All assets and liabilities in foreign currencies have been revalued into ringgit at rates of exchange ruling on the balance sheet date and the gain/loss has been reflected accordingly in the Bank's account*
[5] *Effective: from 2006, the Consumer Price Index has been revised to the new base year 2005=100, from 2000=100 previously*
[6] *Effective: from 2006, the Producer Price Index has been revised to the new base year 2000=100, from 1989=100 previously*
[7] *Based on average USD exchange rate for the period of January-February 2009*
[p] *Preliminary*
[F] *Forecast*

Note: Numbers may not necessarily add up due to rounding

APPENDIX 2:
MONETARY POLICY FRAMEWORK

The objective of Bank Negara Malaysia's monetary policy is to maintain price stability while giving due regard to developments in the economy. A well-designed and appropriate monetary policy framework will contribute towards improving the economic prospects of the country and raise living standards. An environment of price stability contributes towards a higher level of economic activity and employment by reducing the level of uncertainty amongst economic participants, and also reduces the "inflation risk premium" associated with holding assets over the longer term. The statutory responsibilities of Bank Negara Malaysia are ascribed in the Central Bank of Malaysia Act 2009.

APPENDIX 3:
PRUDENTIAL REGULATION AND SUPERVISORY FRAMEWORK

In maintaining financial stability in the system, Bank Negara Malaysia monitors and conducts analysis on the development the financial sector and economic environment, detects potential vulnerabilities and risks and undertakes appropriate measures to mitigate these threats and risks to financial stability as well as to prevent and control the building up of excessive risks within the financial system. A stable financial system is crucial for effective mobilisation of resources to spur economic growth. The key to this is a sound prudential regulatory framework. In designing this framework, Bank Negara Malaysia sensitively balances the costs against the benefits of regulation in determining an appropriate regulatory approach which can be both efficient and effective, and benchmarked against international best practices.

The prudential framework will cover governance standards, risk management standards, capital adequacy standards, prudential limits, reporting and disclosure standards, in addition to other prudential requirements.

To support the prudential regulation framework, a robust supervision framework and an effective surveillance mechanism comprising of both on-site examination and off-site surveillance has been put in place.

APPENDIX 4:
MILESTONES IN THE DEVELOPMENT OF THE MALAYSIAN DEBT SECURITIES AND SUKUK MARKET

Since the mid-1980s, efforts were directed towards promoting a robust domestic debt securities and sukuk market to act as a competitive source of long-term debt financing for the economy, as well as to provide investors with viable investment alternatives to suit their risk and return profiles. Major efforts taken are summarised as follows.

REGULATORY FRAMEWORK	
Jan 1989	Introduction of *The Guidelines for the Issuance of Private Debt Securities* to ensure orderly development of the market and to protect investors' interest.
Jan 1990	*Code of Conduct and Market Practices for Scripless Trading in the Malaysian Securities Market* was introduced to lay down the basic market rules.
Mar 1993	The setting up of Securities Commission Malaysia following the Government's decision to develop a more focused regulatory authority over an increasingly sophisticated capital market.
Jun 1999	The National Bond Market Committee (NBMC) was established to provide the policy direction and to rationalise the regulatory framework for the development of the bond market. As an initial step to rationalise the regulatory framework, SC was appointed as the single regulatory authority for the supervision and regulation of the corporate bond market. The members of NBMC consist of the Ministry of Finance, Economic Planning Unit of the Prime Minister's Department, Bank Negara Malaysia, Securities Commission, the Registrar of Companies and the Malaysia Stock Exchange.

REGULATORY FRAMEWORK	
Jul 1999	*Code of Conduct and Market Practices for Malaysian Scripless Securities Market Under the Real Time Electronic Transfer of Funds and Securities (RENTAS) System* were introduced.
Jul 2000	The Securities Commission Malaysia became the single regulator for all fund raising activities, following the amendments to the Securities Commission Act 1993, the Companies Act 1965, the Banking and Financial Institutions Act 1989, the Futures Industry Act 1993 and the Securities Industry (Central Depositories) Act 1991. The SC is the approving and registering authority for prospectuses in respect of all securities other than securities issued by unlisted recreational clubs. The Registrar of Companies is responsible for the lodgment of prospectuses. The Controller of Foreign Exchange issued the *Exchange Control Guidelines on the Issuance of Private Debt Securities for Lead Arrangers* to ensure compliance with the exchange control conditions/requirements under the new regulatory framework. The Banking and Financial Institutions (Amendments of Definition of Deposit) Order 2000 has been gazetted with effect from 1 July 2000. With this Order, non-licensed institutions were allowed to enter into repurchase agreements (repo) transactions with licensed institutions under the Banking and Financial Institutions Act 1989.
Feb 2001	The Capital market Masterplan was launched. It sets the strategic position and future direction of capital market development for Malaysia.
Oct 2001	Rules on Fully Automated System for Issuing/ Tendering (FAST), Bond Information and Dissemination System (BIDS) & Real Time Electronic Transfer of Funds and Securities (RENTAS) were issued to replace the Rules issued in 1999.
Dec 2001	Issuance of Guideline on Securities Borrowing and Lending (SBL) Programme under RENTAS and Guidance Notes on *Repurchase Agreement Transactions.*

REGULATORY FRAMEWORK	
Oct 2002	Universal Brokers were allowed to participate in the unlisted debt securities in order to expand market players in the domestic bond market. Following this measure, Universal Brokers have been admitted as members of FAST, BIDS and RENTAS.
Mar 2003	The Malaysian capital market entered the final phase of its move from merit-based to disclosure-based regulatory (DBR) framework for fund raising.
Dec 2003	SC announced the release of the *Guidelines on the Offering of Structured Products.*
Apr 2004	Introduction of a new interest rate framework to promote more efficient pricing of the spectrum of financial products being offered. Bank Negara Malaysia liberalised its foreign exchange regulation allowing multilateral development banks (MDBs) or multilateral financial institutions (MFIs) to issue Ringgit denominated bonds in the Malaysia capital market. These bonds carry 0% risk weight under the risk-weighted capital ratio framework and allowed deduction from eligible liabilities for computation of statutory reserves requirements. For resident insurers, these bonds are qualified as low risk assets to support their margin of solvency.
July 2004	SC introduced the *Guidelines on the Offering of Islamic Securities* (IS Guidelines).
Sep 2004	The regulatory treatment for Cagamas securities was revised and Principal Dealers were also no longer required to bid for the primary issuance of Cagamas papers.
Oct 2004	Bank Negara Malaysia announced the usage of repos as a monetary policy instrument. This would encourage market participants to actively use repos as an alternative funding instrument, enhance trading strategies and strengthen risk management capabilities by encouraging banks to move towards collateralised inter-bank transactions.

REGULATORY FRAMEWORK	
Oct 2005	Bank Negara Malaysia issued the *Guidelines on Regulated Short-Selling* of Securities in the Wholesale Money Market. The introduction of regulated short-selling is part of Bank Negara Malaysia's continuous effort to further develop a liquid bond market with an active repo and securities borrowing and lending. This would also promote better risk management by facilitating hedging of interest rate risk.
Jan 2006	A Practice Note on Recognition of Credit Rating Agencies by the Securities Commission for the Purpose of Rating Bond Issues was introduced. The Malaysian bond market is among the first and very few markets in the world to have introduced requirements and duties on credit rating agencies and evaluate their fitness to operate as a recognised credit rating agency.
Jan 2006	Guidelines on an Electronic Broking System was introduced by the Securities Commission. Electronic broking system means a stock market established or operated by a licensed money broker for the trading of debentures or bonds of any government, body corporate or unincorporated, sukuk or any rights, options or interest in respect thereof.
Jan 2006	Guidelines on the Registration of Bond Pricing Agencies was issued by the Securities Commission. Under these Guidelines, the term bond pricing agencies refers to an entity which is registered with the SC to provide daily fair prices for bonds on an independent and objective basis.
May 2006	Bank Negara Malaysia issued a revised set of rules on the Scripless Securities under the Real-time Electronic Transfer of Funds and Securities System and also under the Fully Automated System for Issuing/Tendering system. These rules would provide a uniform set of rules and procedures to govern the issuance and settlement of scripless securities under both system.
July 2006	Bank Negara Malaysia issued Guidance Notes on Repurchase Agreement Transactions to provide a set of best practices on

REGULATORY FRAMEWORK	
	repurchase agreement transactions as well as specific regulatory requirements that should be observed by licensed financial institutions when undertaking repo transactions.
Oct 2006	A Practice Note on Registration by the Securities Commission for the Purpose of Acting as a Bond Trustee was introduced in view of the important role played by trustees in a debt securities or sukuk issue. Under this Practice Note, only fit and proper trustee companies can act as bond or sukuk trustees and they must discharge their fiduciary duties in a proper manner.
Jan 2007	Issuance of an operational framework for MGS switch auction, involving the Government buying back or redeeming predetermined MGS that tend to be illiquid, and to replace them with more liquid benchmark MGS. This will enable the Government to consistently issue new MGS in all market conditions, provides flexibility to the Government to manage its liability and cater to investors' demand for securities of certain duration.
April 2007	Guidelines on the Offering of Structured Products was introduced. These Guidelines stipulate the criteria that must be met when issuing, offering, making an invitation for, or making available unlisted structured products to investors listed in Schedules 2 and 3 of the Securities Commission Act 1993.
Aug 2007	A revised Depository and Paying Agency Agreement was introduced to be in line with the market development and practices.

INFRASTRUCTURE AND INSTITUTIONAL BUILDING	
Dec 1986	Setting up of the national mortgage corporation (Cagamas Berhad) with the objective of promoting the development of a secondary market in Malaysia by purchasing mortgages from primary lenders and issuing debt securities.
Jan 1989	A Principal Dealer System was introduced in which market makers were appointed for certain classes of debt securities. The role of the principal dealers includes providing reasonable continuous 2-way price quotations for these papers to individuals, institutional clients and Bank Negara Malaysia.
Jan 1990	Confirmation of trades and settlement of cash and securities transfers were fully automated following the implementation of the electronic inter-bank funds transfer and scripless book-entry system (SPEEDS).
Nov 1990	The establishment of the first credit rating agency, Rating Agency Malaysia Berhad, to provide some guidance on the credit worthiness of bonds and sukuk issuers.
May 1992	Mandatory rating for all issuance of domestic private debt securities.
Mar 1994	Cagamas Berhad issued the first mortgage bond based on Islamic principles known as Cagamas Mudharabah bond.
Oct 1995	With the increasing number of ratings and to create a healthy competitive environment, a second rating agency, Malaysian Rating Corporation Berhad, was established.
Jan 1996	To enhance secondary activities, PDS is made scripless with clearing and settlement executed electronically through SPEEDS.
Jun 1996	Incorporation of the Institut Peniaga Bon Malaysia (Malaysian Institute of Bond Dealers) to represent the interest of participants in the bond market.
Aug 1996	Companies Act 1965 was amended to widen the investor base and to simplify the requirements on the submission of prospectus.

INFRASTRUCTURE AND INSTITUTIONAL BUILDING	
Sep 1996	The primary market auction process for government securities was automated with the implementation of the Fully Automated System for Issuing/Tendering (FAST). The automation has increased the efficiency in tendering and eliminated potential disputes that may arise from the bidding process.
Jul 1997	FAST was upgraded to include tendering of commercial papers and medium-term notes.
Sep 1997	Bond Information and Dissemination (BIDS) was set-up to promote awareness of the bond market to support both primary and secondary trading.
Jul 1999	The deferred net settlement protocol (SPEEDS) was replaced with a real-time gross settlement (acronym RENTAS) to enhance liquidity and reduce settlement risks.
Oct 1999	FAST was upgraded to include tendering of short term interest bearing notes, money market deposits and Sanadat Mudharabah Cagamas securities. Integration of FAST and BIDS to remove double entry of information and to make the systems more user-friendly. Ringgit Bond Market Internet Homepage was launched to provide access of Malaysian bond market, FAST and BIDS information to general public.
Mar 2000	The Government Securities Auction Calendar for the year 2000 was announced in line with the Government's efforts to develop the capital market in Malaysia. This yearly auction calendar would enhance the transparency and facilitate the formulation of investment strategies by the investors.
Oct 2001	Enhancement of FAST system to enable execution of repo transactions between Bank Negara Malaysia and approved interbank institutions (Fully Automated Repo System).

INFRASTRUCTURE AND INSTITUTIONAL BUILDING	
Dec 2001	RENTAS system was upgraded to include Securities Borrowing and Lending (SBL) Programme module and Repo Enhancement module. Interface between FAST and RENTAS system to enhance the operational efficiency of both systems.
Sep 2004	Introduction of the Islamic Interbank Money Market website (http://iimm.bnm.gov.my) as a source of information on domestic Islamic financial instruments and to facilitate investment decisions and secure public confidence in their investment.
Oct 2004	Institutional Securities Custodian Program (ISCAP) was introduced by Bank Negara Malaysia as an infrastructure to release captive holdings of securities. The captive holding of MGS by institutional investors are circulated back to market participants via Bank Negara Malaysia repo operations and thus, enhance the overall liquidity in the bond market.
Jul 2005	In line with the developments in the capital market and technological advancement, the new Fully Automated System for Issuing/Tendering (FAST) was launched to replace the older version. The new version was developed as a web-based application, thus provide greater transparency to members and the public.
Jun 2006	Bond Info Hub was launched as a single source of information on the Malaysian bond market for global investors. The hub was subsequently enhanced in December 2006.
Mar 2008	The electronic trading platform (ETP) for unlisted debt securities and sukuk was introduced. The ETP assumes the function of the Bond Information Dissemination System (BIDS) which was maintained and managed by the Bank, as the central database on bond trading information. The ETP will further enhance the price discovery mechanism that will facilitate real-time decision making by market participants.

FISCAL AND FINANCIAL INCENTIVES	
Jan 1989	Waiver from stamp duty for all instruments relating to the issue and transfer of company bonds, which issue has been sanctioned by Bank Negara Malaysia.
Jan 1992	Tax exemption on interest earned by individuals investing in bonds (other than convertible loan stock) issued by public companies listed on the Kuala Lumpur Stock Exchange.
Jan 1993	Tax exemption on interest earned by individuals investing in bonds (other than convertible loan stock) issued by a company rated by Rating Agency Malaysia Berhad or Malaysian Rating Corporation Berhad.
Oct 1994	Withholding tax for foreign investors on interest earned was reduced from 20% to 15%.
Jan 1996	Tax exemption on interest income received by unit trusts and listed closed-end funds from corporate bonds (other than convertible loan stock).
Jan 2000	Waiver from stamp duty for all instruments relating to the issue and transfer of private debt securities, which issue has been approved by Bank Negara Malaysia or the Securities Commission Malaysia.
Jan 2000	Stamp duty exemption on the instruments executed on or after 30 October 1999 but not later than 31 December 2000 for the purpose of securitisation.
Jan 2001	Transactions relating to the issuance of asset-backed securities are exempted from stamp-duty.
Jan 2003	Tax deductions for expenses incurred in issuing any Islamic PDS that adopts either the *mudharabah, musyarakah or ijarah* principles, for five years, commencing from 2003.

FISCAL AND FINANCIAL INCENTIVES	
Sep 2003	Establishment of a tax neutral framework for securitisation transactions and a 5-year tax deduction on expenses incurred in the issuance of ABS.
Sep 2004	Abolishment of the withholding tax on interest income derived by non-resident companies from: • Ringgit-denominated Islamic securities and debentures, other than convertible loans stocks, approved by Securities Commission Malaysia. • Securities issued by the Government of Malaysia. This would attract foreign participation and widen the investor base in the domestic market.
2007	• Income-tax exemption is granted to a special-purpose vehicle (SPV) which is established solely for issuance of sukuk. • Tax deduction is granted to a company that establishes an SPV on cost of issuing sukuk incurred by the SPV. • Extension of deduction on expenses for sukuk issued under *Musyarakah*, *Mudharabah*, *Ijarah* and *Istisna'* for another 3 years until the year of assessment 2010.
2008	• Profit paid or credited to any person in respect of non-Ringgit sukuk originated in Malaysia (excluding exchangeable loan stock) and approved by the SC is exempt from income tax. • Tax exemption from the year of assessment 2009 until the year of assessment 2011 is granted to a person licensed or registered under the Capital Markets and Services Act 2007 on income derived from dealing in sukuk and advising on corporate finance relating to the arranging, underwriting and distributing of sukuk that originate from Malaysia and issued or guaranteed by the Government of Malaysia or approved by the Securities Commission.

DEVELOPMENTAL INITIATIVES	
Sep 2004	The issuance of Islamic Treasury Bills to add further depth to the development of Islamic securities market.
Oct 2004	The first issuance of residential mortgage-backed securities by Cagamas MBS Berhad, a wholly owned subsidiary of Cagamas Berhad which was backed by Government staffs' housing loans. The securitisation represents a new strategic initiative to broaden the domestic bond market with a new asset class whilst simultaneously creating a benchmark yield curve for long-term asset backed securities bonds.
Nov 2004	Issuance of a new asset class, the Asian Development Bank's Putra bonds, marking a significant development in the domestic bond market. The RM400 million fixed rate bonds was the first issued by a foreign entity and a supranational. The bonds generated strong demand with total bids amounting to more than RM2.6 billion or 6.5 times the issue amount.
Dec 2004	Issuance of the International Finance Corporation (IFC)'s Wawasan Islamic bonds. The RM500 million 'Wawasan Bonds' (approximately US$132 million equivalent) three-year bonds were issued as *Bai Bithaman Ajil* Islamic Securities. IFC is the first supranational to issue Islamic securities in the Malaysian market, and first supranational to issue domestic Islamic bonds in any market.
Apr 2005	Further liberalisation of foreign exchange administration rules to facilitate non-residents and residents cross-border investments. Income from investment in Ringgit-denominated debt securities is exempted from withholding tax.
Apr 2005	Repo Facilities for principal dealers (PDs) were introduced with the main purpose to facilitate market making activities for PDs and to promote competitive pricing. Repo auction of benchmark government securities for PDs provide an avenue for PDs to obtain government securities if they are caught short in the process of performing market-making function.

DEVELOPMENTAL INITIATIVES	
May 2005	Issuance of RM760 million Ringgit-denominated Wawasan Bonds by the International Bank for Reconstruction and Development (IBRD), also known as The World Bank. The issuance would contribute to further broaden and develop the country's Islamic capital market.
Jul 2005	First issuance of 20-year MGS amounting to RM1billion. Given the current excess liquidity, the longer dated MGS attracted good demand from investors. It will also lengthen the tenure of the MGS yield curve.
Jul 2005	Daily indicative yield to maturity (YTM) for Government securities (conventional & Islamic) was implemented as to provide continuous market value information on Government securities to the market. Publication of Indicative YTM on private debt securities based on ratings and selected papers remain on a weekly basis i.e. on the 7th, 14th, 21st and end of every month.
Aug 2005	The issuance of RM2.05 billion Islamic Residential Mortgage-Backed Sukuk Musyarakah (IRMBS) by Cagamas MBS Berhad. The bond is backed by a pool of the Government's staff Islamic home financing. The introduction of IRMBS added new asset class in the domestic market and demonstrated Government's continuous and innovative effort to broaden and deepen the Islamic capital market.
Feb 2006	The inaugural issuance of RM400 million Bank Negara Malaysia Sukuk Ijarah, which is a new Islamic monetary instrument based on the *Al-Ijarah* or "sale and lease back" concept that is globally accepted. The issuance of sukuk *Ijarah* added diversity of monetary instruments used by Bank Negara Malaysia in managing liquidity in the Islamic Money Market. The introduction of sukuk *Ijarah* reflects the continuous efforts by Bank Negara Malaysia to spur product innovation and the development of products to meet the diversified requirements of domestic and international investors. This will facilitate the development of a vibrant and comprehensive sukuk market in Malaysia as well as to promote Kuala Lumpur as an international Islamic financial hub.

DEVELOPMENTAL INITIATIVES	
May 2006	The issuance of Commercial Papers (CPs) and Medium-term Notes (MTNs) on scripless basis under RENTAS. The dematerializing of the CPs and MTNs facilitates simultaneous book-entry transfer of securities and funds under the delivery-versus-payment principle, thereby eliminating the risks of settlement and non-delivery of securities.
Nov 2006	The introduction of the Payment versus Payment (PvP) infrastructure for the settlement of interbank ringgit/US dollar foreign exchange (FX) trades through RENTAS-USD CHATS has significantly reduced the settlement risk of FX transactions. The PvP link enables the simultaneous settlement of ringgit in Malaysia and US dollars in Hong Kong during Malaysian business hours, thereby eliminating FX settlement risk.
Dec 2006	The issuance of the first tranche of callable MGS which allows the Government to better manage its cash flows. The introduction of this new product would improve product diversity and further develop the Malaysian bond market, particularly the primary market for corporate bonds, as callable MGS may serve as a benchmark for private sector issuers to price their own callable MGS. Introduction of Bank Negara Monetary Notes (BNMN) to replace the existing bank Negara Bills and Bank Negara Negotiable Notes for the purpose of managing liquidity in both the conventional and Islamic financial markets. The main objective of BNMN is to promote financial system efficiency in absorbing excess liquidity and thus reducing undesirable impact in the domestic financial market. The introduction of the first Islamic Derivative Master Agreement in the world by Persatuan Pasaran Kewangan Malaysia, with the first transaction using the agreement signed in December 2006. This will further deepen the Islamic derivatives market by providing an avenue to Islamic investors for enhanced risk management and greater transparency in market dealings.

DEVELOPMENTAL INITIATIVES	
Jan 2007	Introduction of MGS switch aimed at increasing trading on liquid benchmark MGS in the market. The increased amount of these benchmark securities will enhance trading in the secondary market, thus improving the overall liquidity in the Malaysian bond market and providing added flexibility in maintaining regular issuances of MGS.
Apr 2007	Further liberalisation of the foreign exchange administration rules to allow residents and foreign issuers to raise foreign currency-denominated bonds would provide flexibility for both residents and foreign investors to diversify their investments in Malaysia.
Oct 2007	Leveraging on the Payment versus Payment (PvP) infrastructure, the Bank introduced the Delivery versus Payment (DvP) settlement service for US dollar securities that are issued, deposited and traded in Malaysia. With the implementation of DvP, the delivery of the Malaysian-issued US dollar securities that are deposited with RENTAS will be made simultaneously with its corresponding US dollar payment, thus eliminating the settlement risk associated with the trading of securities in Malaysia.
Dec 2008	An exempt regime for both listed and non-listed issuers was introduced to enable issuers to list their debt securities and sukuk for profiling purpose.

APPENDIX 5:
LIST OF GUIDELINES ISSUED BY BANK NEGARA MALAYSIA THAT RELATE TO THE DEBT SECURITIES AND SUKUK MARKET

1. Depository and Paying-Agency Agreement (DPAA) - August 2007

2. Operational Framework For MGS Switch Auction - January 2007

3. Guidance Notes on Repurchase Agreement Transactions - July 2006

4. Rules on the Scripless Securities under the Real-Time Electronic Transfer of Funds and Securities (RENTAS) System - May 2006

5. Guidelines on Regulated Short-Selling of Securities in the Wholesale Money Market - October 2005

6. Rules on Fully Automated System for Issuing/Tendering (FAST) - July 2005 (last updated May 2006)

7. Guidelines on Standing Facilities - April 2004

8. Guidance Notes on Sell and Buy-back Agreement Transactions - August 2002

9. Guidelines on Securities Borrowing and Lending (SBL) Programme under RENTAS - December 2001

Note: The list of Guidelines mentioned above is current as at the date of this publication. However, Bank Negara Malaysia continuously reviews and introduces new guidelines to facilitate the growth of the debt securities and sukuk market. For the latest list, please refer to Bank Negara Malaysia's website.

APPENDIX 6:
LIST OF GUIDELINES ON THE DEBT SECURITIES AND SUKUK MARKET ISSUED BY THE SECURITIES COMMISSION MALAYSIA

1. Guidelines on the Offering of Structured Products - Revised April 2007
2. Practice Note on Registration by the Securities Commission for the Purpose of Acting as a Bond Trustee * - October 2006
3. Practice Note on Recognition of Credit Rating Agencies by the Securities Commission for the Purpose of Rating Bond Issues* - January 2006
4. Guidelines on Registration of Bond Pricing Agencies - January 2006
5. Guidelines on Registration of an Electronic Broking System - January 2006
6. Guidance Note on the Secondary Trading of Foreign Currency Denominated Debentures and Foreign Currency Denominated Islamic Securities - September 2005
7. Guidelines on the Offering of Private Debt Securities - July 2004
8. Guidelines on the Offering of Asset-Backed Securities - July 2004
9. Guidelines on the Offering of Islamic Securities - July 2004
10. Guidelines on Dealing in Unlisted Debt Securities by a Universal Broker - October 2002
11. Guidelines on the Minimum Contents Requirements for Trust Deeds - July 2000

** also applicable to the offering of Islamic Securities*

Note: The list of Guidelines mentioned above is current as at the date of this publication. However, the SC continuously reviews and introduces new guidelines to facilitate the growth of the debt securities and sukuk market. For the latest list, please refer to the SC's website.

APPENDIX 7:
MARKET CONVENTION IN THE MALAYSIAN DEBT SECURITIES AND SUKUK MARKET

1. Day Count

Instruments	Day Count
Ringgit Inter-bank Deposits	Act / 365
Negotiable Instruments of Deposits (NIDs)	Act / 365
Bankers' acceptances (BAs)	Act / 365
Interest-rate Swaps (IRS)	Act / 365
Repurchase Agreements	Act / 365
SSTS Securities:	
Malaysian Government Securities (MGS)	Act / Act
Government Investment Issues (GII)	Act / Act
Malaysian Government Treasury Bills (MTB)	Act / 365
Malaysian Government Islamic Treasury Bills MiTB)	Act / 365
Bank Negara Monetary Notes - Discount-based (BNMN-DB)	Act / 365
Bank Negara Monetary Notes – Coupon-based (BNMN-CB)	Act / Act
Bank Negara Monetary Notes - Floating (BNMNF)	Act / 365
Bank Negara Monetary Notes - Islamic Discount-based (BNMN-iDB)	Act / 365
Bank Negara Monetary Notes - Islamic Profit-based (BNMN-iPB)	Act / Act
Private Debt Securities (PDS)	Act / 365
Khazanah	Act / Act
Cagamas	Act / 365
CPs/MTNs	Act / 365

2. Trading Hours

	Type of trades	
	Same Day	**Standard (T+1/T+2) & Forward (>T+2)**
Trading hours	9 am to 3.00 pm	9 am to 4.30 pm
Settlement Cut-off time	by 5.30 pm	by 11.00 a.m. on value date
Confirmation of trades (before noon/ after-noon)	Before 12.15 pm / Before 3.15 pm	Before 5.00 pm on trade date
Confirmation / Rejection of Unconfirmed advice (before noon/ after-noon)	Before 2.00 pm / Before 4.00 pm	Before 5.30 pm on trade date

Settlement after the cut-off time on the same value date is considered a delayed payment while settlement not executed by the close of the business day on the value date is considered failed.

3. Trading Convention - General Market Rules

Securities	Trading Basis	Standard Amount	Standard Value date
BNMNs and MTBs (discount-based)	Yield	RM5 mil	T+1(Tom)
BNMNs (coupon/profit-based/floater)	Price	RM5 mil	T+2 (Spot)
MGS, GII and Khazanah	Price	RM5 mil	T+2 (Spot)
Conventional PDS	Price	RM1 mil	T+2 (Spot)
Sukuk	Price	RM1 mil	T+2 (Spot)

4. Holiday Convention - Interest Payment and Redemption Date:

	Government and Bank Negara Malaysia papers		Private Debt Securities	
	Interest Payment	Redemption	Interest Payment	Redemption
Expected Holiday	+1	+1	+1, but if month end,-1	-1
Unexpected Holiday	+1	+1	+1	+1
	Interest Unadjusted		Interest Adjusted	

Month-end rule applies if the holiday declared on the last business day of the month in which case the new value date will be the working business day prior to the month end.

Issue date and tender date:

	Government and Bank Negara Malaysia papers		Private Debt Securities	
	Tender Date	Issue Date	Tender Date	Issue Date
Expected Holiday	-	-	-	-
Unexpected Holiday	+1, falls issue date	Only adjust first interest payment	+1, fall on issue date	Only adjust first interest payment
	Interest Adjusted		Interest Adjusted	

If both tender and issue dates are unexpected holidays, both dates shall be +1, with adjustment on tenure and calculation on proceeds. The maturity date is not adjusted.

5. Standard Amount

Instrument	Standard Amount	Minimum Amount
Spot Ringgit/USD	USD3 million	-
Spot EUR/USD	EUR5 million	-
Spot Other Currency/USD	USD1 million	-
Ringgit Swap	USD10 million	-
Overnight/Tom Next/Spot Next	USD10 million	-
Other Tenures	USD10 million	-
Ringgit Inter-bank Deposits	RM5 million	RM50,000
Government Bonds/Cagamas	RM5 million	-
T-bills/BNMNs/Cagamas Notes	RM5 million	-
Bankers' Acceptances	RM100,000	-
Negotiable Instruments of Deposits	RM5 million	-
Short-term Commercial Papers	RM1 million	-
Private Debt Securities	RM1 million	-
Repo	RM1 million	RM100,000
Retail Transactions	RM1,000	RM1,000

APPENDIX 8:
LIST OF PRINCIPAL DEALERS AND ISLAMIC PRINCIPAL DEALERS

A. Principal Dealers (PDs):

1. AmBank Berhad
2. CIMB Bank Berhad
3. Citibank Berhad
4. Hong Leong Bank Berhad
5. HSBC Bank Malaysia Berhad
6. Malayan Banking Berhad
7. OCBC Bank (Malaysia) Berhad
8. Public Bank Berhad
9. RHB Bank Berhad
10. Standard Chartered Bank Malaysia Berhad
11. The Royal Bank of Scotland Berhad
12. United Overseas Bank (Malaysia) Berhad

B. Islamic Principal Dealers (i-PDs):

1. Affin Islamic Bank Berhad
2. AmIslamic Bank Berhad
3. Bank Islam Malaysia Berhad
4. CIMB Islamic Bank Berhad
5. Hong Leong Islamic Bank Berhad
6. Maybank Islamic Berhad

APPENDIX 9:
LIST OF FINANCIAL INSTITUTIONS

Financial institutions are the key players in the bond market, in bond origination and secondary market trading. The financial institutions in Malaysia are as follows:

Commercial Banks	
1.	Affin Bank Berhad
2.	Alliance Bank Malaysia Berhad
3.	AmBank (M) Berhad
4.	Bangkok Bank Berhad
5.	Bank of America Malaysia Berhad
6.	Bank of China (Malaysia) Berhad
7.	Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad
8.	CIMB Bank Berhad
9.	Citibank Berhad
10.	Deutsche Bank (Malaysia) Berhad
11.	EON Bank Berhad
12.	Hong Leong Bank Berhad
13.	HSBC Bank Malaysia Berhad
14.	JP Morgan Chase Bank Berhad
15.	Malayan Banking Berhad
16.	OCBC Bank (Malaysia) Berhad
17.	Public Bank Berhad

Commercial Banks	
18.	RHB Bank Berhad
19.	Standard Chartered Bank Malaysia Berhad
20.	The Bank of Nova Scotia Berhad
21.	The Royal Bank of Scotland Berhad
22.	United Overseas Bank (Malaysia) Berhad
Islamic Banks	
1.	Affin Islamic Bank Berhad
2.	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad
3.	Alliance Islamic Bank Berhad
4.	AmIslamic Bank Berhad
5.	Asian Finance Bank Berhad
6.	Bank Islam Malaysia Berhad
7.	Bank Muamalat Malaysia Berhad
8.	CIMB Islamic Bank Berhad
9.	EONCAP Islamic Bank Berhad
10.	Hong Leong Islamic Bank Berhad
11.	HSBC Amanah Malaysia Berhad
12.	Kuwait Finance House (Malaysia) Berhad
13.	Maybank Islamic Berhad
14.	OCBC Al-Amin Bank Berhad
15.	Public Islamic Bank Berhad

Islamic Banks	
16.	RHB Islamic Bank Berhad
17.	Standard Chartered Saadiq Berhad
Investment Banks	
1.	Affin Investment Bank Berhad
2.	Alliance Investment Bank Berhad
3.	AmInvestment Bank Berhad
4.	CIMB Investment Bank Berhad
5.	ECM Libra Investment Bank Berhad
6.	HwangDBS Investment Bank Berhad
7.	KAF Investment Bank Berhad
8.	Kenanga Investment Bank Berhad
9.	Maybank Investment Bank Berhad
10.	MIDF Amanah Investment Bank Berhad
11.	MIMB Investment Bank Berhad
12.	OSK Investment Bank Berhad
13.	Public Investment Bank Berhad
14.	RHB Investment Bank Berhad
15.	Hong Leong Investment Bank Berhad

Development Financial Institutions	
1.	Bank Pembangunan Malaysia Berhad
2.	Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank)
3.	Export-Import Bank of Malaysia Berhad
4.	Bank Kerjasama Rakyat Malaysia Berhad
5.	Bank Simpanan Nasional
6.	Bank Pertanian Malaysia Berhad (Agrobank)

APPENDIX 10:
LIST OF MONEY BROKERS

There are currently six money brokers in the Malaysian market, in charge of arranging deals between two or more approved interbank institutions. Money brokers may also arrange deals between banking institutions and foreign counterparties in the international money and foreign exchange markets. Money brokers charge brokerage fees for services provided. The list of money brokers are as follows:

1. Affin Money Brokers Sdn Bhd
2. Amanah Butler Malaysia Sdn Bhd
3. First TAZ Tradition Sdn Bhd
4. Forex Enterprise Sdn Bhd
5. Harlow's & MGI Sdn Bhd
6. KAF-Astley & Pearce Sdn Bhd

APPENDIX 11:
LIST OF RECOGNISED CREDIT RATING AGENCIES

The recognised credit rating agencies pursuant to the *Practice Note on Recognition of Credit Rating Agencies by the Securities Commission Malaysia for the Purpose of Rating Bond Issues are* as follows:

No.	Name	Contact Details	Effective Date of Recognition
1.	RAM Rating Services Berhad (763588-T) Note: Credit rating services were transferred from RAM Holdings Berhad (formerly known as Rating Agency Malaysia Berhad) to RAM Rating Services Berhad on 1 July 2007.	Registered address: Suite 20.01, Level 20 The Gardens South Tower Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Business address: Suite 20.01, Level 20 The Gardens South Tower Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Tel : 603 7628 1000 Fax: 603 7628 1700 Website: www.ram.com.my	1 June 2006
2.	Malaysian Rating Corporation Berhad (364803 V)	Registered address: 5th Floor, Bangunan Malaysian Re No. 17, Lorong Dungun Damansara Heights 50490 Kuala Lumpur Business address: 5th Floor, Bangunan Malaysian Re No. 17, Lorong Dungun Damansara Heights 50490 Kuala Lumpur Tel : 603 2092 5398 Fax: 603 2094 9397 (Ratings) 603 2093 9308 (General) Website: www.marc.com.my	1 June 2006

APPENDIX 12:
LIST OF REGISTERED TRUSTEES FOR DEBT SECURITIES AND SUKUK ISSUES

The list of trustees registered with the SC pursuant to the Practice Note for the Registration by the SC for the Purpose of Acting as a Bond Trustee is as follows:

No.	Name	Contact Details	Effective Date of Recognition
1.	BHLB Trustee Berhad (313031A)	**Registered address:** 5th Floor Bangunan CIMB Jalan Semantan Damansara Heights 50490 Kuala Lumpur **Business address:** Level 7 Wisma Amanah Raya Berhad Jalan Semantan Damansara Heights 50490 Kuala Lumpur Tel : 603 2084 8888 Fax: 603 2095 5469	3 January 2007
2.	HSBC (Malaysia) Trustee Berhad (1281-T)	**Registered address:** Suite 901, 9th Floor Wisma Hamzah-Kwong No. 1 Lebuh Ampang 50100 Kuala Lumpur **Business address:** 3rd Floor Bangunan HSBC No. 2 Leboh Ampang 50100 Kuala Lumpur Tel : 603 2270 6007/6009 Fax: 603 2034 1062	3 January 2007
3.	Mayban Trustees Berhad (5004-P)	**Registered address:** 34th Floor Menara Maybank 100 Jalan Tun Perak 50050 Kuala Lumpur **Business address:** 34th Floor Menara Maybank 100 Jalan Tun Perak	3 January 2007

No.	Name	Contact Details	Effective Date of Recognition
		50050 Kuala Lumpur Tel: 603 2078 8363 Fax: 603 2070 9387 Website: www.maybank2u.com.my	
4.	Malaysian Trustees Berhad (21666-V)	**Registered address:** Level 3, Menara Prudential No. 10, Jalan Sultan Ismail 50250 Kuala Lumpur **Business address:** Level 3 Menara Prudential No. 10 Jalan Sultan Ismail 50250 Kuala Lumpur Tel : 603 2176 1066 Fax: 603 2032 1222	3 January 2007
5.	PB Trustee Services Berhad (7968-T)	**Registered address:** 17th Floor, Menara Public Bank 146, Jalan Ampang 50450 Kuala Lumpur **Business address:** 17th Floor, Menara Public Bank 146, Jalan Ampang 50450 Kuala Lumpur Tel : 603 2176 6000 Fax: 603 2164 3285	3 January 2007
6.	Universal Trustee (Malaysia) Berhad (17540D)	**Registered address:** No. 1, Jalan Ampang 3rd Floor 50450 Kuala Lumpur **Business address:** No. 1, Jalan Ampang 3rd Floor 50450 Kuala Lumpur Tel : 603 2070 8050 Fax: 603 2031 8715/2070 7748 Website: www.universaltrustee.com.my	3 January 2007
7.	Equity Trust (Malaysia) Berhad (610812-W)	**Registered address:** Suite 27-03, 27th Floor Menara Keck Seng 203 Jalan Bukit Bintang 55100 Kuala Lumpur	16 January 2007

No.	Name	Contact Details	Effective Date of Recognition
		Business address: Suite 27-03, 27th Floor Menara Keck Seng 203 Jalan Bukit Bintang 55100 Kuala Lumpur Tel : 603 2145 6828 Fax: 603 2115 0828 Website: www.equitytrust.com	
8.	Amanah Raya Berhad (344986-V)	**Registered address:** 15th Floor, Wisma Amanah Raya No. 2, Jalan Ampang 50450 Kuala Lumpur **Business address:** 10th Floor, Wisma Amanah Raya No. 2, Jalan Ampang 50450 Kuala Lumpur Tel : 603 2055 7388 Fax: 603 2078 8187 Website: www.arb.com.my	9 February 2007
9.	CIMB Trustee Berhad (167913 M)	**Registered address:** 5th Floor, Bangunan CIMB Jalan Semantan Damansara Heights 50490 Kuala Lumpur **Business address:** Level 7, Wisma Amanah Raya Jalan Semantan Damansara Heights 50490 Kuala Lumpur Tel : 603 2084 8888 Fax: 603 2092 2717	9 February 2007
10.	OSK Trustees Berhad (573019-U)	**Registered address:** 20th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur **Business address:** 6th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Tel : 603 9207 7777 Fax: 603 2175 3288/3222 Website: www.osktrustees.com.my	9 February 2007

No.	Name	Contact Details	Effective Date of Recognition
11.	AmTrustee Berhad (163032-V)	**Registered address:** 22nd Floor Bangunan AmBank Group 55, Jalan Raja Chulan 50200 Kuala Lumpur **Business address:** 17th Floor Bangunan AmBank Group 55, Jalan Raja Chulan 50200 Kuala Lumpur Tel : 603 2036 2633 Fax: 603 2032 4303	2 April 2007
12.	Pacific Trustees Berhad (317001-A)	**Registered address:** A-9-8, 9th Floor, Megan Phileo Promenade No. 189, Jalan Tun Razak Off Persiaran Hampshire 50400 Kuala Lumpur **Business address:** A-9-8, 9th Floor, Megan Phileo Promenade No. 189, Jalan Tun Razak Off Persiaran Hampshire 50400 Kuala Lumpur Tel : 603 2166 8830/4830/2830 Fax: 603 2166 3830	23 April 2007
13.	Deutsche Trustees Malaysia Berhad (763590-H)	**Registered Address:** Level 20, Menara IMC 8, Jalan Sultan Ismail 50250 Kuala Lumpur **Business Address:** Level 20, Menara IMC 8, Jalan Sultan Ismail 50250 Kuala Lumpur Tel : 03-2053 7522 Fax: 03- 2053 7526	16 October 2007
14.	AmanahRaya Trustees Berhad (766894-T)	**Registered Address:** 15th Floor, Wisma Amanah Raya No. 2 Jalan Ampang 50450 Kuala Lumpur	29 November 2007

No.	Name	Contact Details	Effective Date of Recognition
		Business Address : Tingkat 4 ,Wisma TAS No. 21, Jalan Melaka 50100 Kuala Lumpur Tel: 603 2036 5118 Fax: 603 2072 0322 Website: www.arb.com.my	
15.	KAF Trustee Berhad (648477-U)	**Registered Address:** Level 14, Chulan Tower No. 3, Jalan Conlay 50450 Kuala Lumpur **Business Address:** Level 14, Chulan Tower No. 3, Jalan Conlay 50450 Kuala Lumpur Tel : 603 2168 8931 Fax: 603 2168 8930 Website: www.kaf.com.my	30 January 2008

APPENDIX 13:
TYPICAL EXAMPLE OF AN AUCTION CALENDAR FOR GOVERNMENT SECURITIES

No.	Issues	Target Quarter	Target ** Month	Target Year	Issue Date	Amount (RM Million)	Remarks
1.	5-year Re-opening of MGS 04/14 5.094%	First	January	2009	23/01/2009	3,500.00	-
2.	5-year Re-opening of MGS 04/14 5.094%*	First	January	2009	23/01/2009	1,500.00	*Via private Placement
3.	10.5-year New Issue of GII (mat on 08/19)	First	February	2009	13/02/2009	3,500.00	-
4.	10.5-year New Issue of GII (mat on 08/19)*	First	February	2009	13/02/2009	2,500.00	*Via private placement
5.	3.5-year New issue of MGS (mat on 08/12)	First	February	2009	27/02/2009	3,500.00	BNM purchased RM150 million of the New 3-year benchmark at the weighted average yield.
6.	3.5-year New issue of MGS (mat on 08/12)*	First	February	2009	27/02/2009	1,000.00	*Via Private placement
7.	5-year Re-opening of MGS 04/14 5.094%	First	March	2009	13/03/2009	4,500.00	-
8.	3-year Re-opening of MGS 08/12	First	March	2009	31/03/2009	4,500.00	-
9.	3-year Re-opening of MGS 08/12*	First	March	2009	31/03/2009	1,000.00	*Via Private placement
10.	3-year New Issue of GII (mat on 04/12)	Second	April	2009	13/04/2009	4,000.00	-
11.	3-year New Issue of GII (mat on 04/12)*	Second	April	2009	13/04/2009	1,000.00	*Via Private placement
12.	5-year Re-opening of MGS 04/14 5.094%	Second	May	2009	15/05/2009	4,500.00	-
13.	10.5-year New issue of MGS (mat on 11/19)	Second	May	2009	29/05/2009	4,000.00	BNM purchased RM200 million of the New 10-year benchmark at the weighted average yield.
14.	3-year Re-opening of MGS 08/12	Second	June	2009	15/06/2009	4,000.00	-
15.	5.5-year New Issue of GII (mat on 12/14)	Second	June	2009	30/06/2009	4,500.00	-
16.	5.5-year New Issue of GII (mat on 12/14)*	Second	June	2009	30/06/2009	1,000.00	*Via Private placement
17.	10-year Re-opening of MGS 11/19	Third	July	2009	15/07/2009	4,000.00	-
18.	10-year Re-opening of MGS 11/19*	Third	July	2009	15/07/2009	1,000.00	*Via Private placement
19.	5-year New Issue of GII (mat on 07/14)	Third	July	2009	31/07/2009	4,500.00	-
20.	2.5-year New Issue of MGS (mat on 02/12)	Third	August	2009	14/08/2009	4,000.00	-
21.	5.5-year New Issue of MGS (mat on 02/15)	Third	August	2009	27/08/2009	4,500.00	-
22.	5.5-year New Issue of MGS (mat on 02/15)*	Third	August	2009	27/08/2009	1,000.00	*Via Private placement
23.	3.5-year New Issue of GII (mat on 03/13)	Third	September	2009	15/09/2009	4,000.00	-
24.	5-year Re-opening of MGS 02/15	Fourth	October	2009	15/10/2009	4,500.00	-
25.	10.5-year New Issue of GII (mat on 04/20)	Fourth	October	2009	-	-	-
26.	5-year Re-opening of MGS 02/15	Fourth	November	2009	-	-	-
27.	3.5-year New issue of MGS (mat on 05/13)	Fourth	November	2009	-	-	-
28.	2-year Re-opening of MGS 02/12	Fourth	December	2009	-	-	-

APPENDIX 14:
TICKERS

Bloomberg	Reuters
	Malaysian Debt Guide • <MY/DEBT>
Government Securities	
Ticker Search • <GOVT>TK<GO>	• <MY/GOVT1>
Specific securities • MGTB<GOVT><GO> • MGS<GOVT><GO> • MALAYS<GOVT><GO> • BNMB<GOVT><GO> • BNMNI<GOVT><GO> • BNNN<GOVT><GO> • CAGA<GOVT><GO> • MGII<GOVT><GO> • MITB<GOVT><GO> • SBNMI<GOVT><GO> • BNMN<GOVT><GO>	
ABF Malaysia ETF • MBIF MK<Equity><GO>	• <0#BETF.KL>
Contributor Prices/Yield	
Islamic Capital Markets • MKIS<GO> • ISLM<GO> • NI ISLMFIN<GO> • SRCH<GO> • NIM<GO> • LEAG<GO> • FSRC<GO> • SUKU<GO> • YCRV 1340<GO>	• <MY/ISLAMIC> • <0#MYSUKUK=>

Bloomberg	**Reuters**
Domestic Bond Market • MYFI<GO> • IYC1<GO> • MGB ALL<INDEX> <GO>	• <BONDWEB> • MGS<0#MYMGS=> • MTB & BNB<0#MYBILLS=> • Government Agencies<0#MYMTG=> • PDS<MY/PDS> • Malaysia Benchmark<0#MYBMK=> • Malaysia Broker<MY/BROKER> • Overview Data<0#MYRCOMP> • MYR Yield Curves<0#MY_CURVES>
Malaysian Market Summary • BTMM MA<GO>	• <0#MY_RCOMP>
Bank Negara pages • BNM<GO>	• <NEGARA>
Malaysian Derivative Exchange • CEM MDE<GO> • MA<INDEX><GO>	• <MDEX/FUTEX1>
News and analysis • ECO 20 AA<GO> • TOP ECO<GO> • TNI MALAY BON<GO>	• <MALAYSIA/NEWS> • [BNM] • [MY] • [M-MY] • [STX-MY] • [DBT-MY] • [ECI-MY] • [KLS]
Bond Indices • MA<INDEX><GO> • ABTRMAGO<INDEX><GO>	

Source: Bloomberg and Reuters

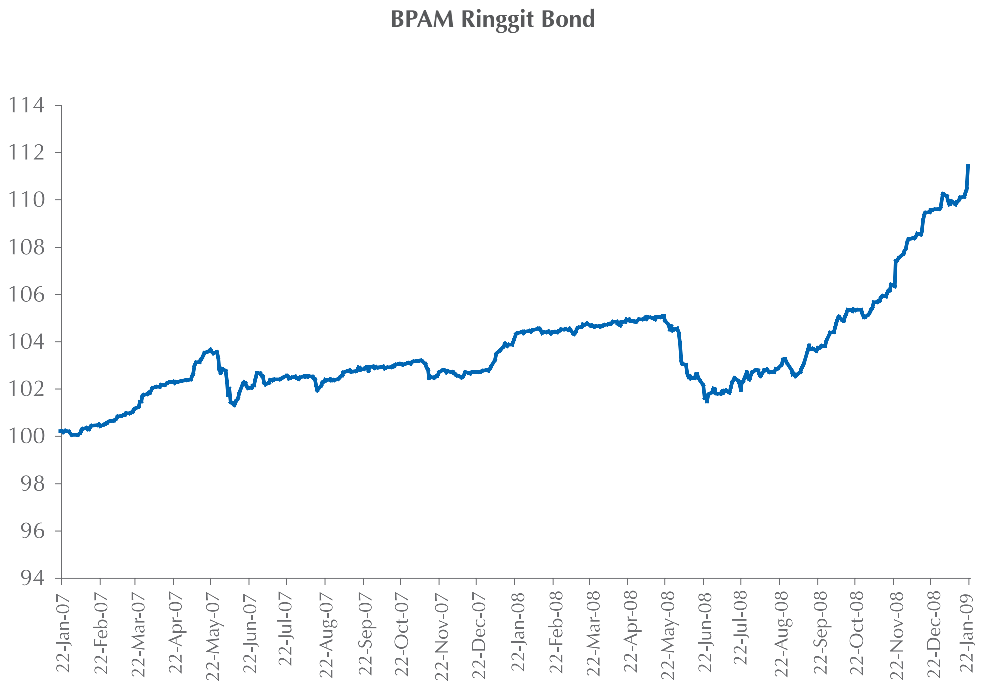
Note: *This list is not exhaustive, and shows the major pages which provide information relating to the Malaysian debt securities and sukuk market.*

APPENDIX 15:
LANDMARK ISSUES IN THE MALAYSIAN SUKUK MARKET

Issuer	Milestone
Shell MDS (Malaysia) Bhd RM150 million BBA (1990)	First tradable ringgit-denominated sukuk
Kumpulan Guthrie Berhad USD150 million sukuk (2001)	First global rated corporate sukuk
Government of Malaysia USD600 million sukuk (2002)	First sovereign sukuk
Ambang Sentosa Sdn Bhd (2003)	First Islamic ABS
SKS Power Sdn Bhd (2004)	First global sukuk Istisna' for a power project
International Finance Corporation RM500 million BBA (2004)	First globak sukuk issuance by a non-Islamic supranational
Time Engineering Berhad (2005) RM3,946 million	First sukuk Musyarakah ABS
Cagamas MBS Berhad RM2.05 billion Musyarakah RMBS (2005)	First rated Islamic residential mortgage-backed securities
PG Municipal Assets Berhad RM80 million sukuk Mudharabah (2005)	First profit-sharing sukuk Mudharabah in Malaysia and First structured transaction backed by collections of property tax
Musyarakah One Capital Berhad RM2.5 billion sukuk Musyarakah (2005)	First profit and loss-sharing sukuk Musyarakah

Issuer	Milestone
International Bank for Reconstruction and Development (World Bank) RM760 million sukuk (2005)	Second global sukuk issuance by a non-Islamic supranational
Rantau Abang Capital Berhad RM10 billion Musyarakah sukuk (2006)	First sukuk Musyarakah to use shares as underlying investment
Khazanah Nasional Berhad USD750 million Islamic Exchangeable sukuk (2006)	First exchangeable sukuk
Malakoff Corporation Berhad (2007) RM1,700 million	First hybrid sukuk
Malayan Banking Berhad USD300 million subordinated sukuk (2007)	First Islamic USD-denominated subordinated sukuk
Binariang GSM Sdn Bhd RM19 billion MTN Programme, RM2 billion CP Programme, and USD900 million Cumulative Non-Convertible Islamic Junior Sukuk (2007)	Largest sukuk to date
AEON Credit Service (M) Berhad RM400 million sukuk	First sukuk by a Japanese–owned corporation
Toyota Capital Malaysia Sdn Bhd RM1 billion sukuk programme (2008)	First sukuk issuance by a Japanese multinational coporation
Tadamun Services Bhd RM1 billion sukuk programme (2008)	First Ringgit-denominated sukuk by a SPV sponsored by the Islamic Development Bank
Petroliam Nasional Bhd USD 1.5 billion sukuk and USD 3 billion bond (2009)	Largest foreign-currency sukuk offering by a Malaysian corporate to date

APPENDIX 16:
BOND INDEX BY BOND PRICING AGENCY MALAYSIA SDN BHD



Source: Bond Pricing Agency Malaysia Sdn Bhd

BPAM RINGGIT BOND INDEX

Overview

The Bond Pricing Agency Malaysia Ringgit Bond Index covers the Malaysia Ringgit denominated, long term investment graded Conventional and Islamic bonds. The index includes bond types of zero coupon, fixed coupon, bullet and bonds with secondary notes. It consists of treasury, government related and corporate sectors. As of 30 September 2008, the index consisted of 695 bonds with total market capitalisation of RM385 billion. Index constituents undergo calculation, review and rebalancing on a daily basis. All return calculations are based on Bond Pricing Agency Malaysia's mark to market prices. The index history is backfilled to 1 January 2007.

Pricing And Calculation Issues

Price Source	Bond Pricing Agency Malaysia daily marked to market prices
Settlement Day	T+1 settlement basis for all bonds
Timing	6.15 p.m. daily. If the day is a public holiday, prices from the previous business day are used
Weighting	Market capitalisation
Portfolio Calculation	Arithmetic and chain-linked

Rules For Inclusion

Amount Outstanding	RM50 million and above amount outstanding remaining in the deal
Rating	Investment grade (BBB3/BBB- or above) using the rating of all rating agencies registered under the Securities Commission. For Securities rated by multiple agencies, the lowest rating is assigned to the issuer
Tenure	At least three months time to legal maturity
Currency	Denominated in MYR
Included Bond Types	Zero coupon bonds, fixed coupon bonds, bullet bonds, bonds with secondary notes

Rules For Exclusion

Amount Outstanding	Bonds where prepayment or early partial redemptions have reduced the known outstanding amount to less than RM50 million during the course of the day before 5.00 p.m.
Rating	Bonds that are downgraded below investment grade during the course of the day before 5.00 p.m.
Tenure	Three months and below time to legal maturity
Excluded Bond Types	All callable bond, floating rate notes, securitised assets, convertible bonds, exchangeable bonds, amortising bonds, stepping bonds, and others not listed under the inclusion rules

Review And Rebalancing

Frequency	The composition of the return and statistics universe is rebalanced daily at 6.15 p.m.
Reinvestment of Cashflows	Interest and principal payments earned by the returns universe are reinvested in the index on the day of scheduled principal and coupon dissemination
New Issuances	Qualifying securities issued, are included in the returns universe on the day of issuance in the secondary market

Sub-Indices

	All Sub-Indices

Index History

3 Nov 2008	BPAM Ringgit Bond Index introduced, with historical data backfilled to 1 Jan 2007

Contact

General Enquiries	enquiries@bpam.com.my