Part Three

Strengthen market competitiveness

Companies will go where it is easiest to raise capital and investors will put their money in markets they trust. We are determined to build a competitive market by facilitating innovation and growth.

Part Three: Strengthen Market Competitiveness

STRENGTHEN MARKET COMPETITIVENESS

INTRODUCTION

Technological changes and globalisation have reshaped industry structures and boundaries. This has transformed the dynamics of capital markets around the world even as the rapid growth of Asia alters the traditional patterns of global order-flows and portfolio allocations across the region.

Malaysia, as one of the top 20 exporting nations in the world, operates a highly competitive economy. It is, therefore, well placed to intermediate a larger proportion of global liquidity. The SC is committed to adopting and implementing policies that strengthen the ability of Malaysia's capital market to meet the competitive challenges and to capitalise on opportunities offered by a fast-changing landscape.

In this context, the building of efficient and competitive market mechanisms is required to support the intermediation of large pools of domestic and regional savings. A developed capital market, attractive to domestic and international investors and issuers, would complement Malaysia's highly international trading economy.

In 2006, the SC implemented major initiatives to enhance the value proposition of the Malaysian capital market. Broad initiatives were implemented to optimise the efficiency of capital market intermediaries, enhance market vibrancy and to facilitate the emergence of new services and products. These initiatives will improve customer reach, and stimulate growth and activities.

The Malaysia International Islamic Financial Centre (MIFC) initiative was launched in 2006 to strengthen Malaysia's position as an international centre for Islamic financial products and services. To support this initiative, the SC announced numerous measures intended to facilitate cross-border issuance and investment of ICM products.

After an extensive review of the collective investment industry, the SC took several measures to accelerate the growth of the unit trust industry. We also strengthened the role of the venture capital (VC) industry in funding new sources of growth.

We continued our efforts to enhance corporate governance and promote the adoption of corporate social responsibilities by PLCs.

CHANGING LANDSCAPE

The CMP identified many initiatives to progressively deregulate and liberalise the capital market aimed at managing an orderly development path. As a result, the Malaysian capital market landscape is being significantly transformed so as to strengthen the international competitiveness of domestic intermediaries.

As at end-2006, 75% of the 152 recommendations in the 10-year CMP had been completed. The SC could not have achieved this without the commitment and support of major stakeholders in the Malaysian capital market.

Table 1
Progress of CMP Implementation

	CMP Phase			
Recommendations	One	Two	Three	Overall
Completed	93	7	14	114
In progress	16	14	8	38
Total	**109**	**21**	**22**	**152**
Completed	85%	33%	64%	75%
In progress	15%	67%	36%	25%
Total	**100%**	**100%**	**100%**	**100%**

We have now embarked on CMP Phase 3 (2006–2010), which is aligned with the Ninth Malaysia Plan and focuses on further broadening and deepening the Malaysian capital market, and enhancing its international competitiveness.

The merger of exchange institutions, the subsequent demutualisation and listing of Bursa Malaysia, the consolidation of some stockbroking companies into UBs and the limited entry of international stockbrokers and fund managers to complement domestic business models were completed in Phases 1 and 2 of the CMP.

The SC also approved Bursa Malaysia's proposal to merge the businesses of Bursa Malaysia Securities Bhd and Bursa Malaysia Derivatives Bhd to further facilitate the integration of equity and derivatives trading. The proposed merger is consistent with plans to consolidate the securities and futures laws into a single omnibus framework and the pending introduction of an integrated electronic trading platform.

Creation of Investment Banks

At the end of 2006, nine merchant banks and three UBs, namely Hwang-DBS Securities Bhd, K&N Kenanga Bhd and OSK Securities Bhd received licences to operate as investment banks.

Investment banks will undertake a full range of merchant banking activities, deal in securities, and provide fund management and unit trust and investment advisory services.

Investment banks are co-regulated by the SC and BNM and subjected to specific provisions of the banking and securities legislation. To reduce regulatory overlap and co-ordinate supervision, relevant laws and regulations were harmonised and arrangements formalised between the SC and BNM. The SC will regulate business and market conduct to ensure market integrity and investor protection, while BNM will focus on prudential regulation to ensure financial stability.

Liberalisation of the Stockbroking Industry

With the creation of investment banks, the SC liberalised the activities of stockbroking firms that have complied with the Consolidation Policy. They are permitted unrestricted branching, to transform their Electronic Access Facility with Permitted Activities (EAF-PAs) as branch offices and to undertake a full range of corporate finance activities.

We abolished or made changes to several guidelines to help domestic capital market intermediaries optimise their back-office control systems.

The SC also introduced several rule changes to facilitate intermediaries re-engineer their business models:

- Implementation of a new mobility framework in 2007 to allow remisiers to carry out their functions outside of the broker's principal office during trading hours. This is to provide remisiers with greater flexibility in servicing and marketing for new clients;

- Amendment to existing rules on margin financing to allow financing of unlisted securities and to provide brokers the discretion to liquidate a client's margin account. The benchmark was also changed from adjusted capital (AC) to effective shareholders' funds (ESF) in respect of the limit of outstanding balances;

- Trading Permit Holders were converted into local participants in order to streamline the participants' list to a single classification that trades all products listed on Bursa Malaysia Derivatives Bhd. This will increase the number of traders in all derivative products. The entrance fee for applicants to become local participants was reduced from RM20,000 to RM10,000; and

- Trading participants in derivatives were allowed to trade in or be a participant of other exchanges, including foreign exchanges.

Product Innovation

A wider product choice provides more opportunities to match the needs of issuers or originators with investors' demands. In 2006, several products were launched and other initiatives introduced:

- Single stock futures (SSF) contracts were launched in April 2006;

- The SC allowed the issuance of structured warrants on foreign shares and indices in October 2006;

- We approved the reintroduction of regulated short selling (RSS) and stock borrowing and lending (SBL) which will be implemented in 2007;
- Bursa Malaysia and FTSE group launched Phase 1 of the new FTSE Bursa Malaysia Index Series comprising six indices;
- Bursa Malaysia introduced a proprietary day trading (PDT) programme to permit dealers execute short sales on an intraday basis, subject to defined controls; and
- Speculative position limits for crude palm oil futures contracts were revised to further increase trading activities.

Listing rules were amended to allow foreign and dual listings. This will promote cross-border linkages with other capital markets and expand the diversity of listed offerings. These initiatives form part of a broader strategy to position Bursa Malaysia internationally.

Preferred Centre for Bond Issuance

As the third largest corporate bond market in Asia ex-Japan, the Malaysian corporate bond market is one of the most successful, mature and deep bond market in the region. The SC is taking steps to further develop and position Malaysia as the preferred international centre for the issuance of bonds.

Earlier liberalisation measures[1] have successfully attracted a number of multilateral development banks (MDBs) and multilateral financial institutions (MFIs) to issue bonds in Malaysia. These issuers included the ADB, the International Financial Corporation, and the International Bank for Reconstruction and Development, which to date have in aggregate issued RM1.66 billion of bonds in Malaysia. In addition, the ADB had issued another RM500 million out of a RM3.8 billion medium-term note programme. In November 2006, Malaysia was included with Hong Kong, Thailand and Singapore, in the ADB's regional US$10 billion note programme.

In order to supply a greater variety of high quality papers for Malaysian investors and as part of the liberalisation process, the SC extended the same facilitative framework to AAA-rated foreign governments and foreign government agencies in March 2006. We released *Practice Note 2A – Application of the Guidelines on the Offering of Private Debt Securities to Foreign Governments and Agencies or Organisations of Foreign Governments*. The KfW Bankengruppe, a German government agency, was the first AAA-rated foreign government agency to capitalise on this framework, issuing a 7-year RM500 million bond in May 2006, followed by a 10-year RM600 million bond in January 2007.

Further, in October 2006, we issued *Practice Note 2B – Application of the Guidelines on the Offering of Private Debt Securities to Foreign Multinational Corporations* which gave multinational corporations the flexibility to use international credit rating agencies for ringgit-denominated bond issues in Malaysia. This allowed such issuers to reduce costs and gain better pricing by leveraging on their international credit standing.

MARKET VIBRANCY PROJECT

To explore areas and initiatives that would enhance the vibrancy of the Malaysian capital market, the SC formed and led a special project team comprising staff from Bursa Malaysia and the Malaysian Investment Banking Association (MIBA).

This project reflected our partnership with the industry to meet the challenges of strengthening the competitive positioning of the Malaysian capital market. The project team identified and implemented a number of initiatives during the year, including–

- holding dialogues with representatives of PERSAMA, PRIBUMI and the ASCM to discuss issues and challenges faced by remisiers. Initiatives to enhance the role and professionalism of remisiers included, increasing their mobility, broadening their ability to sell a wider range of products and establishing a single licensing framework. To further develop their skills, a CMDF-funded industry transformation initiative will be implemented by the SIDC in 2007. Engagements were also held with industry associations on the full deregulation of commission rates to facilitate the emergence of new business models;

[1] From July 2004, applications to issue ringgit-denominated bonds in Malaysia by MDBs and MFIs, were deemed approved by the SC upon receipt of the applications. Further, the statutory requirements to enter into a trust deed and appoint a trustee were exempted for MDBs and MFIs with an AAA credit rating from an international credit rating agency. In November 2004, these measures were extended to MDBs and MFIs for the issuance of ringgit-denominated *sukuk*.

- collaborating with Bursa Malaysia and stockbroking firms to conduct road shows in Penang, Ipoh, Kota Kinabalu, Kuching, Johor Bahru, Melaka, Kuantan and Kuala Lumpur. Stockbroking analysts presented their analysis of prospects for the various sectors (finance, plantation, manufacturing, etc.) and highlighted investment ideas. The road shows were well attended and received wide media coverage;

- collaborating with the members of Chartered Financial Analyst (CFA) Malaysia to publish 10 articles in the local dailies, featuring success stories on investing in Malaysia's stock market. The SC organised an investor education seminar in Kuala Lumpur, with speakers from CFA, while the SIDC concurrently ran the "Wise Investors seminars"; and

- arranging for the SC and Bursa Malaysia to hold a dialogue with more than 100 companies experiencing financial difficulties, urging their management to strengthen the companies. Engagements were conducted to encourage some companies to consider pre-emptive restructuring to avoid being classified a PN17 company.

MALAYSIA'S LEAD IN ISLAMIC CAPITAL MARKET

Malaysia is regarded as one of the leading centres for Islamic finance and product development. It offers a comprehensive regulatory infrastructure, a range of financial intermediaries and a variety of products. A significant development has been Malaysia's increasing ability to innovate sophisticated Shariah-compliant products which have gained worldwide acceptance.

In 2006, BNM, the SC and stakeholders collaborated to launch the MIFC. This further strengthened the nation's position as an international centre of origination, issuance and trading of ICM and treasury instruments, Islamic funds and wealth management services.

To facilitate cross-border issuance and investment of ICM products, the SC announced several liberalisation initiatives:

- Removal of the requirement for SC's prior approval for trading of non-ringgit *sukuk* between sophisticated investors in Malaysia;

- Allowing Malaysian investors to invest in foreign securities listed on recognised foreign exchanges;

- Facilitated the listing of foreign corporations on Bursa Malaysia; and

- Allowing the issuance of foreign currency-denominated *sukuk* by multilateral development banks and financial institutions, sovereigns and quasi-sovereigns, as well as by local or foreign multinational corporations.

Tax Incentives

Several tax incentives were unveiled during Budget 2007:

- Local and foreign fund managers are provided 100% income tax exemption on management fees earned from managing foreign funds in accordance with Shariah principles;

- For the issuance of *sukuk*:

  – The SPV established for the purpose of Islamic financing is exempted from income tax;

  – The company which establishes the SPV is also given a deduction on the cost of issuance of *sukuk* incurred by the SPV; and

  – Deduction on expenses for *sukuk* issued under the Shariah principles of *musyarakah*, *mudharabah*, *ijarah* and *istisna`* is extended for another three years until the year of assessment 2010;

- Expenses incurred prior to the commencement of an Islamic stockbroking business are allowed to be tax deductible, subject to the company commencing its business within two years; and

- To increase the competitiveness of Islamic REITs:

  – Resident and non-resident individual investors and other local entities that receive dividends from REITs listed on Bursa Malaysia are subjected to a withholding tax of 15% for a period of five years;

  – Foreign institutional investors that receive dividends from REITs listed on Bursa Malaysia are subjected to a final withholding tax of 20% for a period of five years; and

– REITs are also exempted from tax on all income provided that at least 90% of their total income is distributed to the investors.

Sukuk Market

Malaysia originates over two-thirds of the world's total *sukuk* issued. The year 2006 saw the increasing issuance of internationaly accepted Shariah-compliant Malaysian *sukuk*. About 70% of the value of *sukuk* approved by the SC was structured using the profit and loss sharing principle (*musyarakah*).

There were many notable *sukuk* issuances in 2006. Among the most innovative were the RM9.1 billion PLUS Expressways Bhd's *sukuk musyarakah*, RM950 million Mukah Power Generation's *sukuk mudharabah*, as well as the US$750 million Khazanah Nasional Bhd's exchangeable *sukuk*. Khazanah's *sukuk* was the world's first which incorporated full convertibility features usually seen in the conventional equity-linked transactions (Table 2).

Table 2
Notable Sukuk Issues in 2006

Issuer	Shariah Principle	Amount (RM million)
PLUS Expressway Bhd (three issues)	*Musyarakah*	9,100
Rantau Abang Capital Sdn Bhd (two issues)	*Musyarakah*	10,000
Nucleus Avenue Bhd (three issues)	*Musyarakah*	7,900
Khazanah Nasional Bhd*	*Musyarakah*	2,750
Sarawak Power Generation Sdn Bhd	*Musyarakah*	215
Mukah Power Generation Sdn Bhd (two issues)	*Mudharabah*	950
OCBC Bank (Malaysia) Bhd	*Mudharabah*	200
Segari Energy Ventures Sdn Bhd	*Ijarah*	930
Penang Bridge Sdn Bhd	*Istisna`*	695
Dynamic Communication Link Sdn Bhd	*Istisna`*	100

** Issued out of Labuan amounting to US$750 million.*

The popularity of the *sukuk* as a debt instrument continued to increase on the back of strong demand from *Takaful* operators and Shariah-based institutional investors. This, combined with the fiscal incentives, ensured that *sukuk* was competitively-priced.

Shariah Advisory Council

The SAC of the SC is the authority with respect to Shariah compliance in the ICM and is the first Shariah advisory body to be established by a securities regulator.

All key resolutions of the SAC since 1996 were published in the book, *Resolutions of the Securities Commission Shariah Advisory Council* in 2003. The second edition was launched in conjunction with the SAC's 10th anniversary in 2006. The book, in both English and Bahasa Malaysia, is an essential reference for domestic and international market participants on the application of Shariah principles for the ICM.

Table 3 (on page 3-6) provides details on the resolutions made by the SAC in 2006.

Building Capacity and Raising Awareness

The rapid pace of product innovation in ICM poses considerable challenges in building the necessary skills in the ICM. The SC organises many training programmes for market players and Shariah advisers. The inaugural annual Islamic Markets Programme (IMP) covered the latest developments, such as *sukuk* structures, Islamic REITs and regulatory issues. A workshop for Shariah advisers helped them to better understand issues of *sukuk*, equity, unit trusts and REITs.

We organised a colloquium on *sukuk musharakah* and *sukuk mudharabah* to raise market awareness on various *sukuk* structures in Malaysia and other parts of the world. The SC also co-hosted the inaugural Malaysian Islamic Finance Issuers and Investors Forum 2006 with BNM, Bursa Malaysia and LOFSA. The forum attracted over 1,000 participants from over 30 countries, including the Middle East, Asia, Europe and the US. Altogether, 65 of the industry's leading practitioners took part as panellists in the forum.

We also presented papers and participated in international conferences and exhibitions, such as–

Table 3
Major Resolutions by the SAC in 2006

Equity	
Redeemable preference shares (RPS)	RPS are in line with the Shariah principles. The ruling was made on the basis that the application of buy back in *musyarakah mutanaqisah* can be similarly applied in RPS. For RPS to conform with the Shariah principles, the purchase price set at the time of issuance must be based on the principle of *wa'd*, in which the issuer promises to buy back the preference shares from the shareholders at a future date based on the purchase price promised at the date of issuance.
Regulated short selling (RSS)	RSS is Shariah compliant because there is no element of *gharar* (ambiguity) involved. However, the underlying securities must be Shariah compliant.
Benchmark for non-permissible rental activities of listed companies	The benchmark for non-permissible rental activities of listed companies should be consistent with the benchmark for non-permissible rental activities of Islamic REITs.
Futures	
Single stock futures	Single stock futures is Shariah compliant provided the underlying assets are Shariah-compliant securities. This resolution was made on the basis that the instruments are free from elements of *muqamarah*, *bai` ma`dum*, *jahalah* and *gharar*. The instrument is traded in clear quantities and pricing is based on the market's supply and demand.
Sukuk	
The usage of *sukuk* for the issuance of Islamic bonds	The term *sukuk* will be used for all Islamic bonds. However, it must be used together with Shariah principles applied in the structure, such as BBA, *murabahah* and *istisna`* for underlying transactions based on indebtedness, or *musyarakah* and *mudharabah* for underlying transactions based on partnership.
Maintenance of *ijarah* asset	Parties responsible for the maintenance of *ijarah* properties must adhere to the terms as stated in the contract (if any); otherwise they must follow *`urf* or custom.
The use of asset from mixed-activities as underlying asset in *sukuk ijarah*	Assets from mixed activities can be used as an underlying asset in *sukuk ijarah* structure, provided the amount of rental received from Shariah non-compliant activities is below 20% of the total rental revenue.

- 3rd Malaysia International Halal Showcase (MIHAS);
- Real Estates Investment Conference in Dubai, UAE;
- IDB/IRTI Seminar on Islamic Capital Markets in Jeddah, Saudi Arabia;
- 3rd Kuala Lumpur Islamic Finance Forum (KLIFF 2006); and
- International Islamic Finance Expo (KLIIFEX 2006).

The SC launched the Malaysian ICM, a quarterly bulletin, in conjunction with MIHAS. The bulletin raises the international profile of Malaysia's ICM and generates greater awareness and understanding of ICM matters domestically and internationally.

STRENGTHENING SAVINGS INTERMEDIATION

Consistent with the commitment and strategies outlined in the Ninth Malaysia Plan and the CMP, the SC undertook an extensive review of the unit trust industry to accelerate its growth and enhance its role in mobilising savings. The total NAV of unit trust funds in Malaysia grew by 23.6% in 2006.

We identified a set of initiatives aimed at providing greater transparency, reducing costs, expanding product choice and improving access for investors. They included–

- introducing a single-pricing regime to ensure greater transparency and disclosure of up-front costs to be effective in 2007. Enhanced transparency of prices and charges will allow investors to compare costs and to monitor the performance of their investments;

- liberalising the range of instruments that could be invested by unit trust funds, such as OTC options and structured products, subject to investor protection safeguards.

- reviewing the possibility of introducing a new category of unit trust funds to fulfil the needs of investors who wish to save for retirement purposes;

- introducing a disclosure-based regulation for product approval to reduce time-to-market in 2007; and

- enhancing distribution channels to improve the delivery of unit trust products to investors in a convenient and cost-effective manner. This includes enhancing the role of players, such as financial planners and broadening the use of technology to improve the cost-effective access of investors to unit trust products.

To protect investors and create a more competitive environment, we implemented the following:

- Funds investing in ringgit-denominated bonds are required to value bond portfolios on a daily basis using fair value prices quoted by the bond pricing agency, beginning 3 January 2007. This is to enable greater consistency in the valuation of OTC bonds, especially illiquid corporate bonds; and

- In October, it was announced that the FMUTM will be formally structured as an industry self-regulatory organisation (SRO) to take on the responsibility of imposing high industry standards for sales conduct and business practices, subject to oversight by the SC. The FMUTM issued several Investment Management Standards for its members to adhere to best practices. In consultation with the SC, the FMUTM introduced a standard deed to be adopted by the unit trust industry.

We had, in April 2006, issued the *Guidelines on Restricted Investment Schemes* to permit the pooling of funds from institutional and sophisticated investors for investment by fund managers. The guidelines will promote the growth of the wholesale and high net-worth fund management market segment. Table 4 provides details on restricted investment schemes (RIS) and wholesale funds approved in 2006.

Table 4
Restricted Investment Schemes and Wholesale Funds in 2006

	RIS	Wholesale Funds
No. of schemes approved	10	5
Total initial fund size (million units)	930	1,300
Total initial fund size (RM million)	930	1,300

To strengthen the competitiveness of the REITs market, the *Guidelines on Real Estate Investment Trusts* (REITs Guidelines) was revised with the issuance of *Guidance Note 2: Borrowing Limits and Issuance of Debentures* on 10 July 2006. These changes allow REITs to–

- borrow up to 50% of total asset value, up from 35%;

- borrow more than 50% with prior approval of the unit holders; and

- issue debentures (including Islamic securities) through a wholly owned single-purpose company to finance acquisitions.

REITs are also allowed to pledge the full value of its real estate assets to secure borrowings.

The revised borrowing limit will allow REIT managers greater flexibility to determine the capital structure of REITs in line with changing economic conditions and to enhance the REIT yields to investors. The liberalisation of the borrowing limit will position Malaysia more competitively, relative to other more developed REIT markets.

Tax Incentives

In September 2006, further tax incentives for REITs were announced in Budget 2007:

- Effective from 1 January 2007, for a period of five years, dividends received from REITs listed on Bursa Malaysia will be subjected to a final withholding tax of 15% for non-corporate investors (resident and non-resident individuals and other local entities);

- Foreign institutional investors (pension funds and collective investment schemes) will be subjected to a final withholding tax of 20% while local and foreign corporate investors will be subjected to existing tax treatment and tax rate (27% for the year of assessment 2007); and

- Effective from the year of assessment 2007, all income is exempted from tax, provided that 90% of total income of REITs is distributed to investors. If the 90% distribution condition is not complied with, REITs will be taxed and investors are eligible for tax credit claim for tax paid by REITs.

In 2006, we had nine applications (three in 2005) to list REITs on Bursa Malaysia. We approved eight applications with a total real estate value of RM3.4 billion (Table 5). Since the introduction of the REITs Guidelines in January 2005, we have approved 12 REITs with a total asset value of RM5.5 billion – offering exposure in five broad property sub-sectors, such as healthcare, office buildings, plantations, retail shopping centres and warehousing.

In 2006, four REITs were successfully listed on the Main Board of Bursa Malaysia. They were Tower REIT, Al-'Aqar KPJ REIT, Hektar REIT and AmFirst REIT. This brought the total number of listed REITs in Malaysia to nine.

FUNDING NEW SOURCES OF GROWTH

The VC industry plays an important role in funding new sources of growth in the Malaysian economy. Its role extends to being a driver of innovation, nurturing entrepreneurship and, in the process, creating jobs. Apart from their direct investments, VCs add value through hands-on involvement in growing the operations of the investee company – particularly in their start-up and early-stage phases. VCs also contribute towards the creation of a larger pool of companies that eventually seek listing on the stock market.

Recognising the strategic importance of the industry, the Malaysian government has actively promoted the growth of the VC industry through the provision of funds and incentives. The Ninth Malaysia Plan allocated RM1.6 billion, a substantial increase over the RM690 million allocated in the previous plan for VC to bridge the crucial financing gap at early stages of enterprise development.

The Malaysian Venture Capital Development Council (MVCDC) was established in January 2005, with the SC as the secretariat. It co-ordinates the implementation of strategies and initiatives for the VC industry.

Table 5
REITs Applications in 2006

	2005	2006
No. of applications received	3	9
No. of applications approved	4*	8
Decision on application deferred	–	1
Total asset value of approved REITs (RM million)	2,092.89	3,405.51

** One application received at end-2004 was approved in 2005.*

Table 6
Market Capitalisation of Listed REITs

	Market Capitalisation of REITs (RM million)	REIT Market Capitalisation vs. Bursa Malaysia Market Capitalisation
2005	2,005.67	0.29%
2006	2,854.30	0.34%

In 2006, the MVCDC launched its web portal (www.mvcdc.com.my) to act as a central reference point for VC-related information. The portal provides news, information and data, and a search engine that facilitates the matching of VCCs and innovators.

To promote greater investor awareness of the VC industry, the MVCDC organised an Investor Forum on 21 August 2006. It was attended by 36 representatives from asset management companies, insurance, pension and unit trust management companies.

The MVCDC Council comprises–

- Dato' Zarinah Anwar (Chairman)
  Chairman, SC;

- Dato' Dr Wan Abdul Aziz Wan Abdullah
  Deputy Secretary General (Policy), Ministry of Finance;

- Dato' Abdul Hanan Alang Endut
  Secretary General, Ministry of Science, Technology and Innovation;

- Badlisham Ghazali
  Chief Executive Officer, Multimedia Development Corporation;

- Chok Kwee Bee
  Executive Director, BI Walden Management Sdn Bhd;

- Ismael Fariz Ali
  Managing Director, FirstFloor Capital Sdn Bhd;

- Norazharuddin Abu Talib
  Chief Executive Officer, MAVCAP; and

- Azlin Alias
  Chief Executive Officer, Malaysian Technology Development Corp.

The VCs, with their capacity and know-how to finance high-risk investments, play an important catalytic role in providing alternative financing to small- and medium-scale companies in high growth areas.

In 2006, the VC industry in Malaysia continued its strong growth. As at end-2006, the number of committed funds rose to RM3.31 billion from RM2.59 billion in 2005. The number of investee companies also grew by 81 since 2005. During 2006, a total of eight VC-backed companies were successfully listed on MESDAQ – seven under the technology sector and one under trading/services sector.

As at 30 December 2006, the SC received four applications for tax certification from 49 VCCs based on the current VC tax guidelines. Based on a total number of 91 VCC/VCMC, the number of applications represented 4% of the total industry.

Tax Incentives

The government granted further tax incentives in Budget 2007. Effective from the year of assessment 2007, VCCs investing at least 50% of their investment funds in the form of seed capital will be eligible for income tax exemption for 10 years. Greater flexibility was given to VCCs to choose from the following tax incentives:

- Income tax exemption for 10 years for investing at least 70% of investment funds in qualified investee companies in the form of seed capital, start-up or early-stage financing;

- Tax deduction for the value of the investments made; or

- Income tax exemption for 10 years for investing at least 50% of investment funds in qualified investee companies in the form of seed capital.

PROMOTING CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

The quality of a capital market is reflected by the confidence investors have in a market place that it is fair and orderly, and where corporate owners and management conduct their businesses with integrity and in the best interest of their stakeholders.

We will continue to work towards providing a fair market, maintaining a strong investor protection regime where owners and management of PLCs align themselves to the interest of investors, maximise shareholder value and contribute to society.

In this regard, Malaysia has continued to receive increasingly positive assessments on the strength of its regulatory framework and investor protection regime. In "Doing Business 2006", the World Bank ranked Malaysia among the top three for regulating the liability of directors and requiring adequate disclosure for related-party transactions. It was ranked fifth for investor protection.

The SC collaborated with the World Bank on the *Report on Observance of Standards and Codes* initiative on corporate governance assessment of Malaysia. The report benchmarked Malaysia's observance of corporate governance practices against the OECD Principles of Corporate Governance. It cited Malaysia's achievements in enhancing corporate governance since 1998, such as for–

- full observance of accounting standards;
- stringent requirements for disclosures for related-party transactions; and
- the introduction of whistle-blower protection in securities laws.

Corporate social responsibility (CSR) in Malaysia received a substantial boost when the Prime Minister announced the requirement for PLCs to adopt CSR in Budget 2007. As an outcome, Bursa Malaysia listing rules were amended to require reporting on CSR initiatives.

The SC actively supported the government's efforts to promote CSR among PLCs. We helped create a CSR committee, comprising a business and academic panel of CSR proponents. The business panel will help promote best practices for the conduct of socially responsible business practices in Malaysia. The academic panel will develop a CSR Index for assessing CSR practices.

The SC participated in the National Mirror Committee on Social Responsibility, responsible for providing a Malaysian perspective in the drafting of the proposed ISO Guidance on Social Responsibility.

In July 2006, we worked with UNDP to organise a seminar on "Making a Difference Through Corporate Social Responsibility – Meeting the Challenges". The seminar focused on case studies to demonstrate the positive impact of CSR on businesses and how it strengthens the competitiveness of companies. It was attended by CEOs and senior representatives from embassies, and private and public sector organisations. We also participated in the UNDP – Malaysian Institute of Integrity Expert Working Group Roundtable which is developing a thematic master training manual for the private sector on corporate governance, business ethics and CSR.

Table 7
Where Are Investors Protected?

Most Protected	Least Protected
New Zealand	Costa Rica
Singapore	Croatia
Canada	Albania
Hong Kong	Ethiopia
Malaysia	Iran
Israel	Ukraine
United States	Venezuela
South Africa	Vietnam
United Kingdom	Tanzania
Mauritius	Afghanistan

Source: World Bank

Table 8
Who Regulates the Liability of Directors?

Most	Least
New Zealand	Nepal
Singapore	Moldova
Malaysia	Zimbabwe
Canada	Sao Tome and Principe
United States	Lebanon
Cambodia	Vietnam
Israel	Senegal
Hong Kong	Mexico
South Africa	Dominican Republic
Mauritius	Afghanistan

Source: World Bank