NEWS

Islamic wealth management to be new growth area

LOGICAL EXPANSION: SC in final stages of formulating new blueprint to strengthen competitive edge

Securities Commission Malaysia chairman **Datuk Seri Ranjit Ajit Singh** says Malaysia's Islamic capital market more than tripled in size between 2005 and 2015. Pic by Nurul Syazana Rose Razman

EXCLUSIVE

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THE Securities Commission Malaysia (SC) plans to launch the Islamic Fund and Wealth Management Blueprint by July to strengthen Malaysia's competitive position in the global Islamic financial sector.

"We have identified Islamic wealth management as a new growth area which, apart from leveraging on Malaysia's existing infrastructure and capabilities in Islamic finance, is also a logical expansion for our well-developed Islamic fund management industry," said SC chairman Datuk Seri Ranjit Ajit Singh in an exclusive interview with the New Straits Times Press.

Ranjit, who was previously SC's managing director, said the SC was in the final stages of formulating the blueprint, which would be launched by the first half of the year and the action plan rolled out over five years.

First announced by Prime Minister Datuk Seri Najib Razak at Invest Malaysia in April last year, the action plan aims to chart the medium- and long-term strategic direction for the industry as well as map out strategies to strengthen the country's Islamic capital market.

Ranjit, who has over 20 years' experience in the field of finance and securities regulation, said Malaysia's Islamic capital market more than tripled in size between 2005 and 2015, with compound annual growth rate of 11.7 per cent. The market size reached RM1.7 trillion by end of last year, representing 60 per cent of the local capital market.

"We are the global leader in the sukuk market with 54.3 per cent of the global sukuk outstanding. Malaysia also tops the global list with the most number of Islamic funds by domicile.

"With Islamic finance rapidly gaining traction in Muslim-majority nations and international financial centres, it's crucial to continue to identify new growth areas to consolidate Malaysia's leadership in an increasingly competitive market," added Ranjit, who is also vice-chairman of the governing board of the International Organisation of Securities Commissions, the global body of capital market regulators.

He said the Sustainable and Responsible Investment (SRI) sukuk framework introduced by the SC in 2014 aimed to attract stakeholders that seek sustainable and responsible financing and investments by capitalising on the significant similarities in the principles underlying both Islamic finance and SRI.

> "It's crucial to continue to identify new growth areas to **consolidate Malaysia's leadership** in an increasingly competitive market."
>
> ***Datuk Seri Ranjit Ajit Singh***
> *Chairman, Securities Commission*

"Market response was encouraging with Khazanah Nasional Bhd launching the world's first ringgit-denominated SRI sukuk last year," said Ranjit, who holds a Bachelor of Economics (Honours) degree and a Master's of Economics in Finance from Monash University, Melbourne.

Another area of the capital market that the SC hoped to grow further in was the derivatives segment, where crude palm oil futures contracts were the most successful thus far, he said.

"Malaysia introduced the derivatives market in the early 1980s, and some of the new exchanges came on board in the 1990s as well. We were ahead of many other countries.

"The Malaysian Futures Broking Association and market players are all keen to see more growth in this area. We are going to take a much more accelerated effort and see what can be done working with Bursa Derivatives. There are a lot of products out there but we need to see what has been preventing them from achieving scale and growth," said Ranjit, a financial economist, accountant and also a fellow of CPA Australia. **Additional reporting by Farah Adilla**

INFOGRAPHIC: NST

Islamic assets under management (AUM)

	2015	2014
Islamic AUM (RM billion)	132.38	110.60
Total industry (RM billion)	667.88	629.98
% of Islamic AUM to total industry	19.82	19.56

Source: SC

INFOGRAPHIC: NST

Government and corporate sukuk

Total issuance (RM billion)	2015	2014
Sukuk issuance	117.70	262.76
Total bonds issuance	270.15	492.23
% of sukuk to total bonds	43.57	53.38

Total sukuk outstanding (RM billion)	2015	2014
Outstanding sukuk	607.93	576.31
Outstanding bonds	1,124.84	1,109.71
% of sukuk to outstanding bonds	54.05	51.93

Note: Including both short and long-term issuance   Source: SC

Islamic unit trust funds

	2015	2014
Number of launched funds		
Islamic	193	188
Total industry	612	612
Units in circulation (billion units)		
Islamic	107.47	94.64
Total industry	458.0	425.43
NAV (RM billion)		
Islamic	52.12	46.66
Total industry	346.58	343.02
% of Islamic to total industry	15.04	13.60

Source: Securities Commission Malaysia

IOSCO's hub move reflects global recognition of Malaysia's commitment

KUALA LUMPUR: The International Organisation of Securities Commission's (IOSCO) decision to set up its Asia Pacific hub in Malaysia demonstrates international recognition of the country's efforts in building a high-quality and well-regulated capital market.

Securities Commission Malaysia (SC) chairman Datuk Seri Ranjit Ajit Singh said the hub, to be operational by end of this year, would enable greater cooperation among members of IOSCO, the global body of capital market regulators.

"The establishment of the IOSCO Asia-Pacific Regional Hub in Kuala Lumpur is a significant milestone as it represents the first time that IOSCO will have presence outside its headquarters in Madrid, Spain."

IOSCO has more than 115 members which regulate more than 95 per cent of the global capital markets worth approximately US$140 trillion (RM571 trillion).

"The regional hub is also expected to have positive spillover benefits in raising Malaysia's international visibility and, at the same time, increase the flow of talent into the country. It will also facilitate the transfer of knowledge, expertise and best practices to Malaysia, which will help to build the depth and maturity of the market," said Ranjit.

He said the establishment of the regional hub was also a reflection of Malaysia's commitment in promoting greater cross-border regulatory collaboration and cooperation.

"This is aligned with our aspirations under Asean in promoting greater regional connectivity and inclusiveness."

NEWS

Ensuring an efficient market

IPO AND PRIVATE DEBT SECURITIES: SC wants to provide conducive environment for companies to raise funds

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EXCERPTS of the second part of an exclusive interview with Securities Commission Malaysia (SC) chairman Datuk Seri Ranjit Ajit Singh.

Q: What are factors driving the initial public offering IPO) market and private debt securities (PDS) market this year? And what do you foresee for the primary as well as secondary markets?

A: Economic and business conditions are the key drivers for those coming to the market. Timing is very important for companies in deciding when to come to the market. Companies weigh the need to raise funds against the valuations that they get at any point of time. They will come to the market when they feel that the timing is optimal. If they think that the timing is not right, they will wait.

Obviously, we are very keen to see more quality IPOs but ultimately, what we really focus our minds on is to ensure that the market is functioning effectively and efficiently so that companies can raise the funds at the right cost and investors get the right investment opportunities.

We anticipate around RM80 billion to be raised through IPOs and PDS issuances this year based on our assessments but in the end, what happens will depend on prevailing conditions. It's also worth mentioning that last year, RM17 billion was raised in the secondary equity market. Secondary market access is important because when companies list, they are looking for continuous access to funds.

The key point here is that once companies decide they want to raise capital, there is a conducive environment for that to occur.

Q: There have been more enforcement activities lately. Is that because the SC is more aggressive in that area or do you see more companies breaching the law and they cannot run away this time? Or is it because the standards are higher now?

A: We take an overall pre-emptive, proactive and proportionate approach towards regulation, and enforcement forms part of our overall regulatory thrust.

We focus on several aspects. Firstly, in ensuring systemic resilience in our marketplace. We look at the soundness of our market infrastructure through, among others, macro prudential tools as well as assessing the financial soundness of our key intermediaries, which we refer to as systematically important entities.

We also adopt a proactive surveillance and supervisory approach looking at issues of conduct and culture. Further, we emphasise a great deal on surveillance technology and have built very strong surveillance capabilities. All this creates greater ability to detect market misconduct and other transgressions within the market.

The focus of our enforcement approach is to achieve credible deterrence. It's important that people who are contemplating engaging in misconduct are dissuaded from doing so because they have an expectation that there will be rigorous enforcement — through our criminal prosecution efforts, civil actions, as well as administrative actions.

We've taken a proportional approach depending on how to most effectively achieve enforcement outcomes and credible deterrence, and will use the different enforcement tools that we have.

Over the years, we have been focusing our enforcement efforts on market abuse, insider trading, market manipulation, etc. We also look at financial irregularities, issues around accounting fraud and these sorts of areas.

Last year, we charged 17 people for criminal offences (16 were for insider trading) and we took on 41 administrative actions and five civil actions.

We are also very pleased to be able to work with the authorities in this area, and the judiciary, I think, has also increasingly recognised the importance of imposing custodial sentences as a deterrent.

Q: Have the criminal offences that you've seen become more sophisticated over time, with technology?

A: Given the increasingly inter-connected global financial landscape that markets operate in, regulation, particularly cross-border regulation, and enforcement has certainly become very complex. Today, there are a significant number of cross-border activities undertaken by perpetrators who carry out very complicated transactions that make it quite challenging and demanding on the part of regulators to bring about enforcement outcomes.

International regulatory cooperation is, therefore, critical and is an area of continued focus for the SC. A good example of this cooperation is through the global body of capital market regulators — International Organisation of Securities Commissions (IOSCO) — that emphasises the importance of having multilateral cooperation mechanisms. Through IOSCO, the SC receives requests for assistance from international regulatory counterparts. It is also through this avenue that we are able to make requests for assistance and exchange of information.

Further, we continue to strengthen our supervisory and surveillance capacity with intensified oversight, including having in place supervisory arrangements and a framework for cross-border surveillance. Our surveillance technology has also become much more advanced with the use of sophisticated regulatory tools, and we have invested a great deal in these tools to ensure that we are equipped with the right resources and capabilities to detect and monitor potential breaches.

*Securities Commission Malaysia chairman **Datuk Seri Ranjit Ajit Singh** says SC will continue to strengthen its supervisory and surveillance capacity.* Pic by Munira Abdul Ghani

Q: Can you elaborate on what's happening in financial technology (fintech)?

A: This is the other important aspect of what I would say as democratising finance and this will promote greater inclusiveness in the capital market.

Fintech has in many ways driven innovation and digitalisation of markets. Over the years, we have seen technology having a pervasive impact on the capital market.

As a regulator, our role is to facilitate this innovation but at the same time ensuring that sufficient safeguards are in place. For example, in our equity crowdfunding framework, we require the operator to put investors' monies in a trust account until the entire amount sought by the issuer is met. There is also a cooling-off period where investors may withdraw their investment.

To drive the growth of fintech in the capital market further, we have set up the Alliance of Fintech Community called aFINity@SC to increase awareness of the potential of financial technology, to catalyse business formation and provide policy and regulatory clarity. Many times when people approach us to discuss innovative business solutions, they want to have regulatory clarity on what they are permitted to do. So far, we have had a lot of expressions of interest in the discussions taking place at aFINity@SC from peer-to-peer (P2P) platform operators, distributed ledger technology providers and robo-advisers. One of the things that the SC will also be doing is to have a more prominent focus around innovation and digital strategy. We will create a dedicated team to focus on innovation and digital strategy.

Regulation also plays a very important role in the growth of financial technology. Regulators cannot apply the traditional approach when designing regulations for innovative market structures. In designing the regulatory framework for equity crowdfunding, we had used the sandboxing approach, which means we impose regulation on a graduated basis after taking into account the size and complexity of the market. The guidelines may be amended, taking into account feedback from the industry. This approach gives us flexibility to allow some of these growth areas to flourish.

> “Regulators **cannot apply the traditional regulatory approach when designing regulations for innovative market structures.** In designing the regulatory framework for equity crowdfunding, we had used the sandboxing approach.”

Q: The next question is on derivatives. Can you talk about the third pillar because Malaysia is very good in terms of equity and bonds while still lacking in derivatives?

A: If you look at how the Malaysian capital market has evolved, we have built significant capabilities over the years, and in the context of global emerging markets, Malaysia is seen to be an advanced emerging market. In many aspects, what we have is comparable to many developed markets. When you look at the successes of the bond market, asset management, the unit trust industry and Islamic market, these are very strong.

We would like to see similar growth in the derivatives segment. The crude palm oil futures contract remains the most successful contract in this regard. Malaysia introduced the derivatives market in the early 1980s, and some of the new exchanges came on board in the 1990s as well. We were ahead of many other countries.

When I mentioned structural reforms earlier, this is an area that we are very keen to work closely with industry.

The Malaysian Futures Broking Association and market players are all keen to see more growth in this area. We are going to take a much more accelerated effort and see what can be done working with Bursa Derivatives. There are a lot of products out there but we need to see what has been preventing them from achieving scale and growth.

Q: Is it because of structural, fundamental or regulation?

A: I don’t think there’s any issue about regulation frankly, because the products have already been approved. It is in part a factor of certain risk aversion to participate in the derivatives market more actively. Unfortunately, we have seen some very spectacular collapses occurring in the past globally and those are vivid in some people’s minds.

The derivatives market is a very important marketplace for the hedging of risks. There has to be much more promotion on the derivatives market. We also need to see much more leveraging and strengthening of our market’s partnership with the CME Group, which is a very big derivatives exchange.

We have a good regulatory framework overall that has allowed cross-border recognition for our exchange to access investors even in the United States. We need to look more closely at how we can further grow the segment. We will have an engagement with the exchange and industry players to further accelerate development in this area. This is definitely in our agenda.

Q: How open is our capital market to international issuers and fundraisers?

A: Our capital market is open. We have had quite a few foreign corporate bond issuers that have raised funds from our capital market over the past few years.

On the listing side, our rules have allowed foreign companies to list here for more than a decade. We welcome any company that meets our listing requirements. But it is important that any foreign company coming to list here complies with the same requirements as local companies so investors can have assurance that only one set of rules applies.

Q: How is the level of foreign participation in the capital market right now?

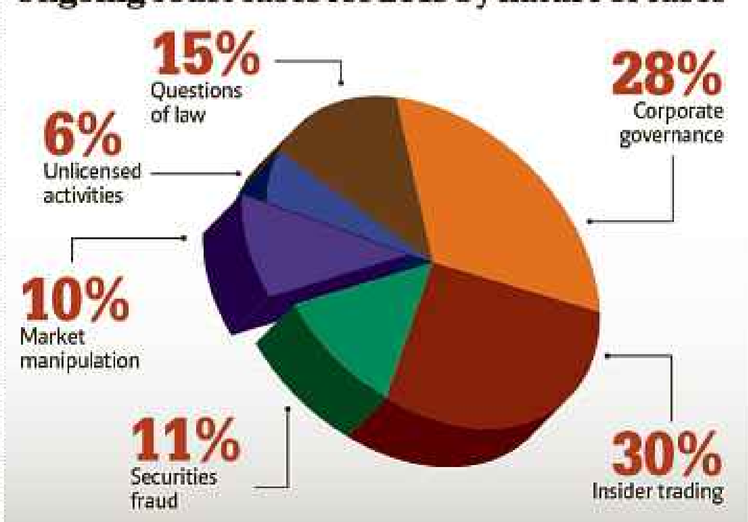
A: Certainly the increase in volatility across all asset classes last year resulted in reduced global investor appetite. Emerging markets recorded a total of US$735 billion (RM2.9 trillion) in net capital outflows last year. Malaysia, being part of the emerging markets universe, was also affected with RM19.7 billion of foreign outflows.

There was moderation in foreign investor ownership levels in the equity market from 24.1 per cent in 2014 to 22.3 per cent as at the end of last year. This figure is slightly below the five-year average foreign shareholding of 23.2 per cent. In the bond market, foreign holdings amounted to 19.1 per cent of total bonds outstanding and the total value of foreign ownership in the corporate bond market itself remained steady at RM14 billion as at end-2015.

At the end of the day, the goal is to have a balanced and well-diversified investor base in the Malaysian capital market.

INFOGRAPHIC: NST

Ongoing court cases for 2015 by nature of cases



Q: What is the story on the Islamic capital market?

A: Malaysia’s Islamic capital market more than tripled in size between 2005 and last year, with compound annual growth rate of 11.7 per cent. The market size reached RM1.7 trillion by end-2015, representing 60 per cent of the entire Malaysian capital market.

We are the global leader in the sukuk market with 54.3 per cent of the global sukuk outstanding. Malaysia also tops the global list with the most number of Islamic funds by domicile. With Islamic finance rapidly gaining traction in Muslim-majority nations and international financial centres, it’s crucial to continue to identify new growth areas to consolidate Malaysia’s leadership in an increasingly competitive market.

We have identified Islamic wealth management as a new growth area which, apart from leveraging on Malaysia’s existing infrastructure and capabilities in Islamic finance, is also a logical expansion for our well-developed Islamic fund management industry.

We are in the final stages of formulating the Islamic Fund and Wealth Management Blueprint that will chart the strategy to position Malaysia as an international Islamic fund and wealth management centre. It will be launched by first half of this year and the action plans will be rolled out over five years.

Meanwhile, the sustainable and responsible investment (SRI) sukuk framework introduced by the SC in 2014 aims to attract stakeholders that seek sustainable and responsible financing and investments by capitalising on the significant similarities in the principles underlying both Islamic finance and SRI. Market response was encouraging with Khazanah Nasional Bhd launching the world’s first ringgit-denominated SRI sukuk last year.

INFOGRAPHIC: NST

Islamic wholesale funds

	2015	2014
Number of launched funds		
Islamic	93	69
Total industry	293	230
Units in circulation (billion units)		
Islamic	31.03	21.65
Total industry	89.29	73.43
NAV (RM billion)		
Islamic	31.66	23.45
Total industry	84.53	73.30
% of Islamic to total industry	37.45	31.99

Source: Securities Commission Malaysia

Q: What has been the response for the special purpose acquisition company (SPAC) market?

A: SPACs were introduced to expand the range of investment opportunities available to investors and to allow the aggregation of companies through mergers and acquisitions.

SPACs are unique. They bring together those with the skills and experience to create value with those who have the capital to help them achieve this. They are a more liquid, transparent and affordable alternative to private equity investments.

The SPAC framework was developed in consultation with market participants and subsequently refined over time. The management of a SPAC must have the skills and experience to complete a qualifying acquisition to implement the business plan and to run the company after that.

What’s also critical is that there can be sufficient value created to compensate investors for the risk they are taking and also that the risk public investors take is not disproportionate to the reward they can potentially receive. The value of SPACs lies with the skills and experience of the management team.

Hence, it is important for the advisers to play their role, do their due diligence to ensure that they only bring SPACs with strong management teams and robust game plans to market. Because of the nature of how SPACs are structured and operate, the advisers’ role as gatekeepers becomes even more important.

As such, advisers must ensure that the right level of due diligence is carried out, that disclosures are complete, accurate and timely and make it a priority that investor interests are always taken into account.

Q: Recently, IOSCO announced that it has chosen to set up its first regional hub in Kuala Lumpur. Can you share with us what is the significance of this hub and how Kuala Lumpur and Malaysia can benefit from it?

A: This is indeed a major achievement for Malaysia in successfully securing the presence of IOSCO, the leading global body of capital market regulators. The establishment of the IOSCO Asia-Pacific regional hub in Kuala Lumpur is a significant milestone as it represents the first time that IOSCO will have presence outside its headquarters in Madrid, Spain.

IOSCO is a powerful international organisation whose membership is extensive and covers capital market regulators, exchanges and associations from both developing and emerging economies.

IOSCO has more than 115 members which regulate more than 95 per cent of the global capital markets worth approximately US$140 trillion.

The regional hub will be an extension of IOSCO and will play a key role for IOSCO initiatives associated with the building of regulatory capacity and capabilities of authorities. This includes strengthening the authorities’ effectiveness in providing regulatory and supervisory oversight.

The selection of Malaysia clearly demonstrates international recognition of Malaysia’s efforts in building a high quality and well-regulated capital market. The agreement by the leading global regulatory organisation to establish its first-ever regional office in Kuala Lumpur also reflects the role and influence of the country in the Asia-Pacific region.

Further, the establishment of the regional hub is a reflection of Malaysia’s commitment in promoting greater cross-border regulatory collaboration. This is aligned with our aspirations under Asean in promoting greater regional connectivity and inclusiveness.

The regional hub is also expected to have positive spillover benefits in raising Malaysia’s international visibility and, at the same time, increase the traffic flow of talent into the country.

It will also facilitate the transference of knowledge, expertise and best practices to Malaysia, which will help to build the depth and maturity of the market. **Additional reporting by Farah Adilla**