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What we need to do now is to build on the strong foundation and leverage on our strengths to charter a new growth trajectory.

SC chairman Datuk Ranjit Ajit Singh >18-20

Vibrant market

SC gets on with business

Regulator to keep watchful eye as capital markets grow

The Securities Commission of Malaysia building in Kuala Lumpur

Malaysia is no small capital market

Capital market size
RM2.6trillion
2.5 times GDP

Bond market
RM1trillion
4th largest in Asia

Fund management industry size
RM550bil

Largest
unit trust industry in Asean

Islamic capital market (ICM) tripled since 2000 to
RM1.5trillion
the world's largest sukuk market

Fund-raising prowess of M'sian capital market

Year 2012
RM146bil raised

RM124bil via bond market

RM22bil via equity market

2 of the largest IPOs in the world

New listing avenues, notable liberalisation effort by SC

- REITs (real estate investment trusts)
- IPCs (infrastructure project corporations)
- SPACs (special purpose acquisition companies)
- Business Trusts
- Stapled Securities

DATUK Ranjit Ajit Singh, a near-career regulator at the Securities Commission (SC), ascended to the executive chairman's post in April last year.

It was a year that proved to be a milestone of sorts for the capital markets in Malaysia given the record-setting performance in terms of fundraising by the capital markets.

Large initial public offerings (IPOs) and a vibrant debt market saw some RM146bil being raised, much of it through the bond market. Of that amount, RM124bil was through the bond market.

The wave of money raised and the large companies floated tipped the scales in positioning Malaysia in the international capital markets arena. It also showcased the capital market's ability in driving the economy.

The performance of the capital markets was also testimony to the work Ranjit's predecessors and staff at the SC have been doing for 20 years.

"First of all, it means that Malaysia now has a more diversified, stable and resilient financial system that provides the financing capacity for the economy. The capital market offers a range of fundraising instruments that give issuers the flexibility to tailor their financing structure to optimise their cost of capital," Ranjit tells *StarBizWeek* in an email interview.

The fact is that the capital markets in Malaysia have shown steady growth ever since the SC was established. A lot of it has to do with the growth the economy has registered but the effort and regulation laid by the regulator too has helped craft the capital markets to what it is today.

Ranjit points out that an average of RM39bil was raised annually during 1993-2000, while RM65bil a year was raised in 2000-2010.

"This shows that Malaysia's capital market has the trust and confidence of investors to support fundraising of that size, coupled with strong intermediation capabilities offered by our capital market intermediaries and professionals as well as a deep collective pool of domestic liquidity," he says.

Ranjit says the Malaysian capital market is today recognised as an advanced emerging market and the size of the capital market is valued at RM2.6 trillion.

The RM1 trillion bond market is the fourth largest in Asia and the experience of Malaysia in developing its bond market is a case study by the World Bank to assist many other markets around the world.

Malaysia's fund management industry has grown to over RM550bil and is today the largest unit trust industry in Asean. Ranjit points out that the Islamic capital market (ICM) has tripled since 2000 to RM1.5 trillion and has established itself as the world's largest sukuk market as well as having the largest number of Islamic funds in the world.

"When we do a regional comparison measured against GDP, Malaysia actually stands out in terms of market depth with an overall capital market that is 2.5 times the size of the nation's GDP; placing it among regional leaders," he says.

While the capital markets have grown in breadth and depth, there are still kinks.

Big foreign listing on Bursa Malaysia has not taken place and the growth of the unit trust industry has come at the expense of retail trade in the market.

Retail investor participation in Malaysia is poor when compared with regional averages and it remains a tough task for the SC to reverse at the moment. Nonetheless, Ranjit says the SC is well aware of the deficiencies on that score and is instituting measures to improve any shortcomings.

As the market matures, so will the type of products the SC will allow to be distributed to investors. SPACs and business trusts have been allowed and the SC is working on more sophisticated products in the future to complement the plain vanilla instruments investors are used to.

One area it wants to beef up is investor education. The SC feels that is crucial in ensuring new age products for Malaysians such as the PRS taking off in due course.

As the capital market grows, the SC will not ease off from its surveillance, and improving corporate governance and transparency.

The Ranhill Energy and Resources Bhd IPO, which has since been canned because of disclosure issues, brings to light the challenges regulators such as the SC have to be vigilant about.

Ranjit says no capital market can eradicate such occurrences as such things do take place in even the most sophisticated and developed markets.

"What is important is that when something like this happens, it can be dealt with swiftly and effectively to ensure that the market and investors are protected. Various safeguards and mechanisms built into our framework enable us to do this so that market integrity and investors are protected," he says.

"For example, the Capital Market Services Act 2007 gives the SC the power to revoke or revise an approval or impose further terms and conditions as it deems fit or necessary if there is any change or development in the circumstances under which approval was given.

"We also have the power to issue stop orders to halt the IPO process while we review the situation. Where we find that such incidents are accompanied by breaches of relevant laws or inappropriate conduct, we will take the necessary action."

"While we accept that such incidents cannot be completely avoided, we take it very seriously when they do happen and will not hesitate to act."

Strong leadership team powers SC

Securities Commission chairman Datuk Ranjit Ajit Singh replies to StarBizWeek in a Q&A:

As you have been with the organisation through the years and today helm the SC, can you share your perspectives on some of the significant capital market developments in the past two decades?

The SC is celebrating its 20th anniversary this year. As I look back at our journey over the past two decades, the Malaysian capital market landscape has certainly changed significantly. When I made the decision to join the SC after having worked abroad for several years, I was attracted by the compelling mission of the SC to set the foundations for the development of the Malaysian capital market.

I have the privilege of working with a strong and highly-motivated team of dedicated staff, who have a common sense of purpose in promoting public policy objectives. We have a strong and experienced leadership team with deep regulatory knowledge and extensive industry experience. It is this combination that has given the SC its strength and allows it to navigate the difficult and often unchartered waters of securities regulation that has grown in complexity over the years.

When it was first established, the SC's focus was on major legislative reforms – to rationalise the regulatory framework. Among other things, we enhanced the regulatory framework for capital-raising and for the investment management industry, developed financial derivatives regulation, and advocated the establishment of a new financial reporting framework for Malaysia.

The Asian Financial Crisis 1997-98 was literally a test for both the SC and capital market. We were severely tested, having to manage intermediaries who were badly affected and ensuring that investors' assets were protected. We have since emerged stronger and more resilient.

Nevertheless, we recognised that there were areas which needed reinforcing and some gaps to be addressed. This was the basis of the first Capital Market Masterplan (CMP). The efforts in the CMP were directed towards, among others, developing the bond market and the Islamic capital market, strengthening risk management standards as well as improving corporate governance practices.

So what do these numbers and figures mean to the Malaysian economy, industry, businessmen and investors?

First of all, it means that Malaysia now has a more diversified, stable and resilient financial system that provides the financing capacity for the economy. The capital market offers a range of fund-raising instruments that give issuers the flexibility to tailor their financing structure to optimise their cost of capital.

As a testament to the depth of the capital market's financing ability, the total amount of capital raised last year was RM146bil with RM124bil raised through the bond market and RM22bil raised via the equity market – which also included two of the largest IPOs in the world. As a comparison, an average of RM39bil was raised annually during 1993-2000, while RM65bil a year was raised in 2000-2010. This shows that Malaysia's capital market has the trust and confidence of investors to support fund raising of that size, coupled with strong intermediation capabilities offered by our capital market intermediaries and professionals as well as a deep collective pool of domestic liquidity.

The growth of the capital market has also provided investors with greater investment opportunities and delivered stable and reasonable overall returns. For instance, if you took figures based on an international

Ranjit: 'Malaysia's capital market has the trust and confidence of investors'.

index provider's data on Malaysia, a RM1 investment in the stock market ten years ago, including dividends, would be worth RM3.29 today, giving you an average annual return of around 10.7%. Compare that against the performance of stock market indices during the same period for Asia (RM1.95), developed countries (RM1.87) and even the world's emerging markets (RM3.04).

Similarly, an investment of RM1 ten years ago across the range of bonds available in our market would be worth RM3.45 today, compared with RM2.53 in emerging bond markets and RM1.69 in a global bond portfolio.

Share with us your key ideas on how the Malaysian capital market should develop and move in the next few years, and what are the initiatives that will make a difference for the capital markets?

What we need to do now is to build on the strong foundation and leverage on our strengths to charter a new growth trajectory. What does it mean? It will entail, among other things:

> Attaining a scale beyond the equity and bond market – The capital market as a whole needs to encompass dimensions that reflect a deeper and more diverse structure that includes a more vibrant fund management industry, derivatives, high-yield products, venture capital, private equity and other alternative investment products.

> Competitively positioned internationally – To leverage on its key strengths to tap on regional opportunities, driven by efforts at greater economic integration and a growing volume of regional cross-border fund flows, which Malaysia must be able to capitalise on.

> Becoming "a market that matters" – In terms of international significance, size and volume of business in key markets and activities. Our eventual goal has to be to bring Malaysia into the ranks of leading capital markets in the world. Such markets display a high degree of vibrancy and talent, and contribute significantly to national income.

Above all, I would like to see an inclusive capital market that enjoys even more widespread levels of participation because it offers its users value by offering choice, depth and being competitive.

Can you elaborate further on your priorities and focus areas according to the SC's three-year business plan?

In order to achieve these outcomes, we are working to position the capital market competitively and drive greater informed participation in our market. We will be supporting these efforts through more effective regulation.

Malaysia is strategically located in a region that has significant growth potential. For the capital market to successfully cultivate opportunities, we have to leverage on the strengths we have built up over the years.

For example, our Islamic capital market is a major source of competitive advantage and it is critical that greater efforts are dedicated to bring this important market segment to the next level. We need to internationalise the market more, through expansion of cross-border linkages, greater profiling as well as issuance of multi-currency products, and build scale and capacity in the Islamic fund and wealth management sector.

A vibrant market will facilitate these efforts. Injecting vibrancy requires better intermediation to channel Malaysia's RM1 trillion pool of savings more effectively into the capital market; more product choice; and enhancing the way markets are organised and introduce mechanisms that will promote greater liquidity. These will be among our key priorities over the next three years.

Vibrancy ultimately requires even higher levels of participation in the capital market. On the supply side, we will be working to facilitate a greater choice of investment and capital-raising products and structures to cater for a wide range of risk profiles.

On the demand side, we want to enable investors so that they have both confidence and capacity to access the market. Here, investor empowerment is essential. This is not about education alone. While investment literacy and capability is important, empowered investors have good access to information, tools and redress mechanisms.

As regulators, our overall objective is to allow businesses to grow and markets to flourish, while maintaining trust and confidence in the market. To ensure this balance is maintained, we will be enhancing our regulatory approach. We will regulate markets, products, firms and activities in proportion to the amount of risks they pose, standards of conduct that participants uphold, as well as the outcomes that we are looking to achieve. We will also be giving greater attention to transparency and stakeholder engagement. This will involve making stronger efforts to improve the clarity of our decision-making. We will guide compliance by making clear what outcomes we expect of the market, as well as risks and other areas of regulatory concern. This will be supported by a more pro-active approach to supervision as well as through timely enforcement.

The quality of our regulation can also be a source of competitiveness. Malaysia underwent the Financial Sector Assessment Programme (FSAP) last year and we received the highest possible rating of "Fully Implemented" in 34 out of the 37 IOSCO principles assessed.

You head the Growth and Emerging Markets Committee (GEMC) of the International Organisation of Securities Commissions (IOSCO). What does it signify for you personally and the Securities Commission?

The SC has over the years played a

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Ranjit: Need for competitive capital market

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significant role in the development of international regulatory standards for the capital market. IOSCO, in particular, is the leading international standard-setter for securities regulation whose members regulate more than 95% of global capital markets.

The appointment as the Chairman of the largest committee within IOSCO is therefore an honour for the SC and for me personally. It is testament to the contributions and expertise that the organisation brings to global regulatory discussions and policy-making, and puts Malaysia at the forefront in being able to contribute to the shaping of international financial market architecture.

Further, as we are seeing more cross-border capital market activities, it has become increasingly important to establish a closer network with our regulatory counterparts. Several of the cross-border regulatory arrangements that the SC has negotiated and entered into with foreign regulators have paved the way for our domestic intermediaries to benefit from opportunities with other markets. For example, the MoUs entered into with regulators from Ireland, Luxembourg and the EU have helped our fund management industry to expand their operations across borders and to promote greater inflows into Malaysia's capital market.

Malaysia is already benefitting from international recognition as a well-regulated capital market. In recent years, Malaysia received recognition as an authorised market for Chinese investors when it became one of only a few an approved investment destination under the Chinese Qualified Domestic Institutional Investor scheme.

The SC has also been able to obtain recognition from the US regulators that has allowed Malaysian futures brokers to solicit orders and transact directly with US customers. We hope that the exchange and industry leverage on the opportunities offered by this recognition to promote their products to a greater pool of investors.

The introduction of SPACs and business trust listings in our market (and before that, REITs) does show that the SC is striving to be current and to help facilitate a capital market that fits into the eco-system of a growing economy. Are we correct to analyse it such and can you give more colour to this theme/ philosophy?

The capital market has played a major role in the growth of the economy and will continue to be a key pillar in supporting economic growth. A capital market can only be effective when it provides issuers with an avenue to raise money at a cost of capital that is competitive.

The risk reward appetite of investors also changes as markets, issuers and investors evolve. In our developmental role, we want to encourage the right sort of innovation that will benefit all parties. As a regulator, we want to facilitate flexibility in fund raising for issuers while ensuring that investor protection is not compromised. We are open to consider structures that the regulatory framework permits, which investors can understand and where there are adequate safeguards in place.

We have been gradually liberalising the markets in line with the levels of sophistication and maturity of the marketplace. Earlier on, we allowed REITs and infrastructure project corporation listings. We have now allowed SPACs, business trusts and stapled securities.

The flexibility we allow in fund raising also helps in deploying capital to support M&A and industry consolidation. Our efforts are part of our strategic plan to keep the capital market effective and competitive and to complement the needs of the economy. However, innovation in the market must be accompanied by responsible behaviour from capital market participants. Investor interest must not be compromised.

In terms of the universe of listed companies on Bursa, do you hold the view that efforts should continue to ensure quality over quantity of listed companies? If so, how is this theme being continued to be pushed through?

Companies being listed in Malaysia need to meet certain minimum standards, with companies listing on the Main Market of Bursa Malaysia having to meet a quantitative profit or market capitalisation threshold and not have any governance or conflict of interest issues. Investors want a range of investment choices.

For example, some will want growth companies while others want dividend yielding companies. What is important is that they know what they are investing in. We recognise that different investors have differing investment preferences and allow diversity in the sorts of companies being listed. The attractiveness of a company on the market is market driven and reflected by the demand and supply for its shares at a particular price.

The 'quality' of a company is also determined by how its shareholders are treated and how it conducts itself. A highly profitable company that relegates the rights of its minority shareholders to the whims and fancies of management or a high growth company with questionable business practices are hardly 'quality' companies. That is why corporate governance is so important when it comes to quality investments.

We have made serious efforts in enhancing corporate governance standards, including the issuance of the Malaysian Code on Corporate Governance 2012. The recognition and favourable ratings from various assessments such as the World Bank's Corporate Governance ROSC, ACGA-CLSA's CG Watch 2012 and the Asean Corporate Governance Scorecard is testament to the strength of Malaysia's corporate governance standards. Where we are today in terms of corporate governance is the result of a collective effort by all stakeholders in the market to improve CG standards and conduct and reflects their understanding of the importance of good governance.

Malaysia has improved a lot in terms of CG ranking – does that mean we will need to reduce enforcement actions?

We will continue to use enforcement as a tool to deter market misconduct. In the past 5 years, we have restituted around 19,700 investors involving a sum of RM30.7 million. 15 company directors have been sentenced to imprisonment terms ranging from 6 months to 12 years.

Our new approach is to encourage firms to have sound risk management frameworks and begin to implement self-reporting of breaches to the SC – to work with the SC on how they intend to improve their processes or controls to prevent a recurrence of the problem.

Conduct supervision by the SC will also focus on making assessments on whether investors are getting fair treatment and whether there are internal processes in place to safeguard investor interest.

We will use transparency and stakeholder engagement in discharging our regulatory functions to strengthen the connection and collaboration between SC and the stakeholders that we serve.

You have spoken about the internationalisation of Asean as a single asset class. What's your realistic assessment of that happening soon?

The case for developing Asean as an asset class is compelling. We are looking at a population base of more than 600 million and a combined market cap of close to US$2 trillion. The demographics and wealth accumulation also point to faster growing incomes. As capital flows to and within this region increases, markets like Malaysia should look at opportunities to facilitate growth and to intermediate Asean deals and capital flows.

Capital markets regulators in Asean, through the Asean Capital Markets Forum (ACMF) are committed towards the development and integration of the region's capital markets. We have made substantial progress on the various integration initiatives. For example, we have created a harmonised framework in several areas, including a set of Asean disclosure standards to facilitate greater cross-border fund raising in the region. Furthermore, the Asean Trading Link which was operationalised last year will help the region compete with bigger markets and economies and extend Asean's reach to a broader and more diversified investor base.

There are naturally challenges in the integration exercise. For instance, we look forward to having more markets in the region participating in the various initiatives so as to broaden the impact and profile of the integration efforts.

Greater efforts are also needed on the part of the private sector to take advantage of the enabling and facilitative environment created by the regulators, and further explore how they can support and complement integration efforts.

Many Malaysian companies already have strong presence in Asean and several of our intermediaries operate in the region with 45% of FBM KLCI 30 companies' revenues generated from overseas. With the appropriate strategies in place, Malaysian companies, capital market intermediaries and investors will find it easier to pursue growth opportunities in the region, including having access to deeper liquidity pools and greater investment opportunities.

The SC has done well to ensure structure and professionalism in the capital market, but what is the SC doing to ensure that our investors are informed and have the confidence with their investment decisions?

We see a need to expand investor protection efforts to now include empowering investors – by this we mean that investors must be responsible for their investment decisions but, investors must be treated fairly, disclosures must be concise and comprehensible and there must be an efficient redress mechanism for them. In December 2012, the Guidelines on the Sales Practices for Unlisted Capital Market Products was introduced to communicate our regulatory expectations on these issues.

Investment literacy is another key component in investor empowerment. We will augment our current efforts with a new approach – taking cognitive biases into account when designing our regulatory policies and initiatives. We are confident that the synergies between investment literacy, tools for investment decision and a conducive ecosystem can have a multiplier effect on the effectiveness of each individual component, enhancing the overall effectiveness of investor empowerment and by extension greater informed participation in the capital market. It is also important that our intermediaries and gatekeepers play their role in ensuring timely dissemination of material information to investors.

How would you describe the take-up of the private retirement scheme (PRS) since it was launched and what more can be done to improve it as a viable retirement savings scheme?

Globally pension funds have taken on increasing significance due to rising life expectancies and living standards. PRS is an important development to enhance Malaysia's multi-pillar pension landscape. As a long-term investment vehicle, it provides opportunities for Malaysians to not only improve the adequacy of their retirement savings but also as an additional avenue to participate in the capital market.

The SC established the regulatory and market framework to facilitate the design of PRS. The framework was benchmarked against private pension practices globally and is implemented within the context of the Malaysian landscape. This has led to setting up of an enabling environment which provides administrative efficiency, flexibility and choice for managing retirement savings.

An increasing number of Malaysians want to maintain a post-retirement lifestyle which mirrors their pre-retirement standard of living. Studies have shown that the gross replacement rates in Malaysia are at the 30% level (while the OECD average is 57%). There is a compelling argument therefore to supplement retirement options by having PRS in place. In the several months since PRS has been offered to the public (November 2012), the take-up rate at this early stage is within expectations with 31,500 PPA account holders and total NAV of RM128mil. Growth of PRS is dependent on efforts to create greater awareness and understanding as well as a supportive incentive structure.

As creating awareness on PRS is a key issue, one of the initiatives being led by the Private Pension Administrator with contributions from all PRS Providers is the setting up an industry development fund, which will launch an intensive education and public engagement campaign over a five-year period.

What's the progress on the market for unlisted companies? What's the risk and prospects for such markets?

Following an industry briefing session conducted in May 2013, the SC received high interest from over 60 domestic and foreign parties who collected the Request of Proposal (RFP). We are drawing to the close of the RFP submission deadline on 5th August and will evaluate the proposals submitted timeline and target to launch MyULM by the first half of next year.

MyULM will make the capital market more inclusive and accessible to a larger array of participants. Its long-term commitment aspires to cater to the underserved market segments; easing entrepreneurs, start-ups, and SMEs' access to affordable finance and resources required for their businesses to thrive, as well as to monetize intellectual property rights. Together with an Infomediary Services Platform, MyULM also seeks to provide an innovative means to enrich and socialise the information content for its users.

Apart from securities of SMEs, a range of other alternative asset classes will also be developed to widen the range of investment opportunities; reflecting the SC's efforts in broadening the capital market. With such diversity of asset classes, MyULM will also expand the range of intermediation services provided by intermediaries to their existing and new clients. Access to this market will be to the relevant class of investors suited to the risk profiles.