

Capital • My

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Quarterly news bulletin of the Securities Commission Malaysia

Review of Q1 2010

The global economy is exhibiting clearer signs of a real recovery, underpinned by the upturn of industrial output, revival of global trade and the continued drawdown of inventories. The IMF in its World Economic Outlook January 2010 update has revised upward its world output forecast to 3.9% in 2010 and 4.3% in 2011. The recovery however, is expected to remain sluggish in the developed economies, while activity is expected to be more vigorous in many emerging and developing economies, driven by buoyant internal demand.

Malaysia's capital market broadly reflected global trends in Q1 2010. Positive sentiments regarding various domestic issues pushed up asset prices and market activity since mid-February.

On the domestic front, stock market sentiment was supported by clear signs of improvement in domestic economic growth, rise in overnight policy rate and ringgit strength. The FTSE Bursa Malaysia KLCI index (FBMVKLCI) rose 7% in Q1 and closed at its two-year high of 1,328.22 points on 10 March as demand for Malaysian assets rose amid domestic developments which spurred buying interests. Trading volume on the local stock exchange increased to 1.05 billion in Q1 2010 from 0.91 billion in Q4 2009.

Malaysia's main stock market index may rise a further 10% in 2010 as investors buy more equities on the back of a stronger ringgit. Positive signs of a better-than-expected recovery in domestic growth and outlook for corporate earnings as well as the release of the new economic model implementation phase in June will continue to provide support to the performance of the domestic market in the near term.

Expectation of rising domestic interest rates and a stronger ringgit encouraged foreign participation in the domestic bond market during the first quarter. As at end-February 2010, foreign holdings of government debt securities and corporate debt securities were up 96% and 14% respectively from a year ago to reach RM57.3 billion and RM15.0 billion respectively.

The SC approved fund-raising proposals amounting to RM10.94 billion of which 84% was for debt securities. There were ten listing proposals with a total potential market capitalisation worth RM6.81 billion. In addition, there was one offer for take-overs valued at RM1.44 billion.

The net asset value (NAV) of unit trust funds increased to RM204.4 billion on 31 March 2010 from RM191.7 billion recorded at the end of Q4 2009. The total NAV represented 19.3% of Bursa Malaysia's market capitalisation.

On the international front, the SC participated in several international and regional events such as Invest Malaysia, the ASEAN Capital Markets Forum and recently collaborated with the Oxford Centre for Islamic Studies (OCIS) to host the inaugural SC-OCIS Conference.

“In the past, the government has played a paternalistic role in recommending and promoting the sources or growth that should be undertaken by the private sector. Yes we need to provide some guidance, but we are aware that the government should not be making investment decisions for the private-sector”.

– Dato' Seri Mohd Najib Tun Razak,
Prime Minister of Malaysia

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Malaysia's New Economic Model

The Prime Minister of Malaysia, Dato' Seri Mohd Najib Tun Razak, recently unveiled a series of economic reforms from the Economic Transformation Programme and gave an overview of the much-awaited New Economic Model (NEM), the backbone of Malaysia's long term policy agenda. The economic reforms were announced in his keynote address at the Invest Malaysia conference on 30–31 April 2010.

The NEM which was formulated by the independent National Economic Advisory Council (NEAC) with a primary vision to transform Malaysia into a high-income economy and propel the nation to developed status by 2020. It is projected to raise the country's growth rate by 6.5% a year from 2011 to 2020 and targets to raise per capita income of Malaysians from US\$7,000 to US\$15,000 in 10 years.



Prime Minister Dato' Seri Mohd Najib Tun Razak delivering his keynote address at the opening of Invest Malaysia

The following are some of the NEM reforms announced by the Prime Minister in promoting capital market development and public-private investment:¹

- Employees Provident Fund (EPF) will be allowed to invest more in overseas assets. EPF presently has about 6% of assets invested offshore and this will increase significantly;
- Petronas has identified two sizeable subsidiaries with good track record to be listed this year on Bursa Malaysia, a move that will reduce government's presence in business and enhance private sector's role;
- Khazanah Nasional Bhd will divest its 32% stake in Pos Malaysia Bhd through a two-stage strategic divestment process;
- The Ministry of Finance Inc companies, such as Percetakan Nasional Malaysia Bhd (National Printer), CTRM Aero Composites Sdn Bhd, Nine Bio Sdn Bhd and Innobio may be privatised.

The NEM will be integrated into the 10th Malaysia Plan with a longer-term vision which would be delivered through the 11th Malaysia Plan. The new plans will be sent for public consultation and the full list of plans will be announced formally in June 2010.

Second capital market master plan to be launched this year

The SC is expected to launch the second Capital Market Masterplan (CMP) covering 2011 to 2020 before the end of the year. This CMP will further strengthen the development of our capital markets. This is currently being formulated by the SC, which will look into the acceleration of capital market industries such as the fund management, venture capital and private equity sectors and evolving from a primarily fund-raising model to a liquidity-driven and risk-diversification model that encourages entrepreneurs and investors to be part of Malaysia's exciting economic future.

The first CMP was launched in 2001 to provide a comprehensive roadmap for the phased and orderly development of the Malaysian capital market over a 10-year period. The aim was to develop an internationally competitive Malaysian capital market that is an efficient conduit for fund mobilisation and allocation underpinned by a strong regulatory framework.

During this CMP period, the objective of building a diverse and resilient capital market was achieved. New market segments were carefully nurtured. Malaysia can now take pride in having a capital market that includes a stockmarket that provides access to equity capital to almost 1,000 listed companies, a bond market that is the third largest in Asia (benchmarked against GDP), among the largest domestic unit trust industry in the region and a comprehensive and innovative Islamic capital market that is globally regarded as the leading Islamic market centre.

¹ Bernama.

ASEAN Capital Markets Forum Meeting

The 12th ASEAN Capital Markets Forum (ACMF) meeting was held in Bangkok on 25 February. Some of the key efforts discussed on the ACMF's Implementation Plan to promote the development of an integrated capital market included:

- Mutual recognition of market professionals;
- Cross-border liberalisation of products and services;
- Promotion of cross-listings among ASEAN countries;
- ASEAN Exchange linkage; and
- Cross-border enforcement and dispute resolution mechanisms.

The SC leads the Working Group on the promotion of cross listings among ASEAN countries, and is currently focusing its efforts on developing a mutual recognition framework and criteria to support this. The SC will be hosting the upcoming 7th ASEAN Finance Ministers' Investors Seminar in Kuala Lumpur in November 2010 and will work closely with the ACMF in bringing together international leading intermediaries, public listed companies and investors to the event.

Corporate Governance

SC establishes the Audit Oversight Board

Following on from the Prime Minister's Budget 2008 announcement which brought to light the need for external auditors to be subjected to independent oversight, the SC has established the Audit Oversight Board (AOB) provided for under the *Securities Commission (Amendment) Act 2010* which was passed by Parliament in December 2009. The AOB commenced operations on 1 April 2010.

The AOB is intended to promote investor confidence in the quality and reliability of audited financial statements of public-interest entities in Malaysia and to establish a framework to promote and develop an independent, effective and robust audit oversight. Under this framework, public-interest entity includes a public-listed company and institutions supervised by BNM and the SC.

An Implementation Steering Committee has already been established to formulate the registration criteria for auditors of public-interest entities and this will be followed by the development of a supervisory oversight programme for inspection, inquiry, enforcement and standards setting.

The responsibilities of AOB stipulated in the new provisions are—

- registration of individuals and firms that wish to audit public interest entities;
- directing Malaysian Institute of Accountants (MIA) to establish or adopt the auditing and ethical standards to be applied by auditors;
- inspecting audit firms to ensure compliance of standards required of registered auditors;
- conducting inquiries when there are suspicions raised during the inspection process;
- imposition of proportionate sanctions; and
- to providing education and awareness on domestic and international auditing and quality standards.

Worth Knowing

- Coca-Cola has announced plans to invest RM1 billion (US\$285 million) in Malaysia over the next five years. The new investment will directly create 600 to 800 new jobs at the bottling plant and is expected to create between 6,000 and 8,000 jobs with local suppliers.¹
- Two of the 20 experts that make up the Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System established 18 October 2008 are Malaysian.^{1a}
- Investors are free to repatriate any amount of own funds in Malaysia at any time, including capital, divestment proceeds, profits, dividends, rental, fees and interest arising from investments in Malaysia.²

^{1, 1a} Bernama/TWBA Malaysia Truly Business Website.

² World Economic Forum/ TWBA Malaysia Truly Business Website.

Islamic Capital Market

SC collaborates with Oxford Centre for Islamic Studies to advance Islamic finance

The SC and the Oxford Centre for Islamic Studies (OCIS), well-known for its research and academic excellence, jointly hosted a high-level roundtable and a public forum from the 15–16 March. The topic of the roundtable was “Developing a Scientific Methodology on Shariah Governance for Positioning Islamic Finance Globally”, while the public forum carried the theme “Contribution of Islamic Finance Post Global Financial Crisis”. His Royal Highness Raja Dr Nazrin Shah, Crown Prince of the State of Perak, who is also the Financial Ambassador to the Malaysia International Islamic Financial Centre (MIFC), delivered the keynote address at both events.

This significant initiative aimed to provide a stimulating international platform to facilitate intellectual debate, dialogue and study on contemporary issues and challenges faced in bringing Islamic finance into the mainstream among global Islamic finance experts, Shariah advisors and scholars from around the world. The forum attracted some 300 industry practitioners, regulators and scholars.



Crown Prince of the State of Perak, HRH Raja Dr Nazrin Shah; Director of the Oxford Centre for Islamic Studies, Dr Farhan Nizami; SC Chairman, Zarinah Anwar at the opening of the SC-OCIS event.

Enforcement News

During Q1, the SC successfully secured convictions for a range of breaches of the securities laws.

Fountain View market manipulation case: SC secures deterrent sentence

Marking the SC's second successful prosecution of a market manipulation case, Dato' Chin Chan Leong and Hiew Yoke Lan, former directors of Fountain View Development Bhd were both convicted by the Kuala Lumpur Sessions Court on 5 February 2010 for their involvement in the manipulation of Fountain View shares.

The Sessions Court sentenced Dato' Chin to a fine of RM1.3 million (in default 13 months imprisonment) as well as a one-day imprisonment under section 88B of the *Securities Industry Act 1983* (SIA) while Hiew was fined RM1 million (in default 10 months imprisonment).

Former directors of MEMS convicted over submission of misleading financial statements

On 25 February 2010, the Kuala Lumpur Sessions Court convicted Ooi Boon Leong, former director of MEMS Technology Bhd (MEMS), and Tan Yeow Teck, executive director and Chief Financial Officer MEMS for knowingly authorising the furnishing of a misleading statement by a company listed on the then MESDAQ market to Bursa Malaysia Securities Bhd.

Both pleaded guilty to the offence under section 122B (b) (bb) of the SIA. The Sessions Court sentenced each accused to a fine of RM300,000 (in default two years imprisonment) under section 122B of the same Act.

Upcoming Capital Market Events

The 6th World Islamic Economic Forum will be held at the Kuala Lumpur Convention Centre on 18–20 May 2010. For more information please visit <http://www.6thwief.org>.

The next SC-Bursa Corporate Governance Week will commence week 28 June–2 July 2010. There will be a series of talks by eminent speakers in the area of corporate governance. For further information please email EJSu@seccom.com.my.

The SC will be hosting the World Capital Markets Symposium 2010 once again in Kuala Lumpur, Malaysia on 27–28 September 2010. To register your interest, please email enquiries@worldcapitalmarketsymposium.org.

