

Capital • My

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Executive Summary

A redistribution in global portfolio capital mainly from fast-growing emerging markets to developed markets appeared to have intensified since the Libyan crisis escalated in mid-February. Nonetheless, there has also been a gradual shift towards emerging bond markets from equity markets. Emerging stock markets as a whole continued to attract a net inflow of funds.

The Malaysian stock market has been able to absorb the impact of global capital redistribution prompted by developments in the Middle East and Japan's earthquake. The index closed at an all time high of 1,574.49 points on 17 January on better growth prospects; Malaysian output registered 7.2% real growth in 2010, after contracting by 1.7% the year before.

The Malaysian economy and capital market are nonetheless expected to remain resilient. A number of analysts have recently re-affirmed their 2011 year-end target for the FBMKLCI at 1,650–1,750 on optimism that implementation of the economic transformation programme and continued foreign interest in Malaysia will continue to support the local market.

Gross issuance of corporate bonds in the first quarter of 2011 increased significantly to RM12.3 billion from the RM5.1 billion recorded in the corresponding period last year. This reflected the continued upward momentum of fund-raising activities in the domestic market.

The SC approved fund-raising proposals amounting to RM13.93 billion of which 98% was for debt securities. There was one IPO for the Main Market, i.e. a China-based company with a potential market capitalisation of RM1.1 billion. In addition, there were six offers for take-overs valued at approximately RM1.75 billion.

Malaysia's capital market size has crossed the RM2 trillion mark as at end-2010, another critical step in further strengthening the positioning of the capital market to meet the future fund-raising requirements for the Economic Transformation Programme (ETP) as well as to meet national aspirations for socially inclusive and sustainable growth.

As part of its international engagement, the SC continues to participate in the IOSCO and the IOSCO Emerging Markets Committee, and recently hosted the International Financial Reporting Standards Foundation's Governance Asian Roundtable, as well as organised the SC-OCIS Roundtable in Oxford, UK which brought together distinguished Shariah scholars, key industry practitioners, senior academicians and regulators from all over the world.

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On 25 March, the SC announced the extension of Tan Sri Zarinah Anwar's tenure as Chairman for one year with effect from 1 April. Tan Sri Zarinah has held the position of Chairman of the SC since 1 April 2006. She joined the SC as Deputy Chief Executive in 2001.

Malaysia's capital market surpasses RM2 trillion threshold

The Malaysian capital market had reached the significant milestone of RM2 trillion as at the end of 2010. This was reported in the 2010 annual report of the Securities Commission Malaysia (SC) which was released on 17 March. Tan Sri Zarinah Anwar, the SC Chairman, noted that the Malaysian capital market achieved an annual compounded growth of 11%, up from RM717 billion in 2000, due to rapid industry expansion and strong regulatory oversight. (Chart 1)

In addition, the size of the Islamic Capital Market (ICM) has now exceeded RM1 trillion, having recorded a growth of 15.2%. Fund-raising through Shariah-compliant instruments, continued to retain its popularity. (Chart 2)

Chart 1
Capital Market Overview Size (RM billion)

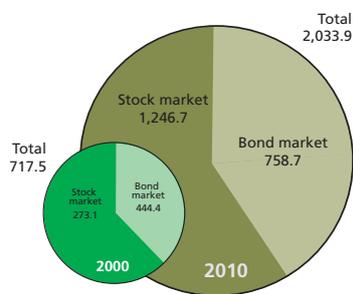
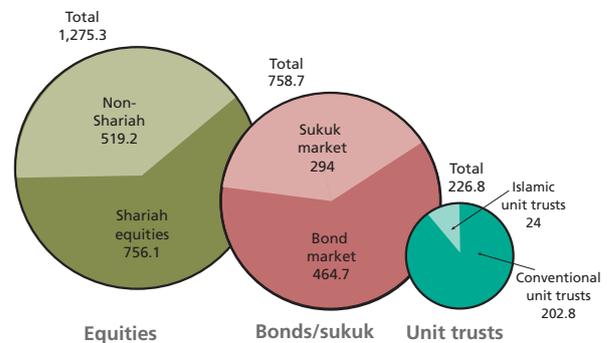


Chart 2
Islamic capital market - RMbillion



To articulate Malaysia's strategies and agenda for the development and regulation of the capital market for this decade, the SC launched the ten-year Capital Market Masterplan 2 (CMP2) on 12 April, and will release a five-year corporate governance blueprint this year.

SC hosts the IFRS Foundation's Governance Review Roundtable

Following the publication by the IFRS Foundation Monitoring Board of its *Consultative Report on the Review of the IFRS Foundation's Governance* in early February, the SC hosted a roundtable discussion on 22 March to enhance the involvement of stakeholders in the review project. This was the second of a series of four roundtables organised in Asia, Europe and the Americas during the two month consultation period. A total of 45 participants representing a wide spectrum of stakeholders including preparers, standard setters, regulators and academics from eight countries namely Australia, China, India, Indonesia, Korea, Malaysia, New Zealand and Singapore participated in the discussions.

The Monitoring Board's review primarily focused on the institutional aspects relating to governance, in particular the composition and the respective responsibilities and roles of the Monitoring Board, Trustees and IASB. The IFRS Foundation Monitoring Board was established in 2009 as a formal link between the organisation with public authorities and to enhance the Foundation's public accountability.

For more information on the Consultative Report, please visit www.iosco.org/monitoring_board/.

Market Developments

SC establishes the first dispute resolution body for the Malaysian capital market

Following the gazetting of the *Capital Markets and Services (Dispute Resolution) Regulations 2010* that came into effect on 30 December 2010, the SC approved the Securities Industry Dispute Resolution Center (SIDREC) which began its operations as the first dispute resolution body for the Malaysian capital market early this year. SIDREC, which caters exclusively to address small claims in the Malaysian capital market, will provide a mediation and adjudication mechanism for investors in relation to any claims made by eligible claimants against any persons licensed to carry out the activities of dealing in activities, trading in futures contracts and fund management under the *Capital Markets and Services Act 2007*.

For more information on SIDREC, please visit www.sidrec.com.my.

FIMM recognised as a self-regulatory organisation by the SC

On 28 February, the SC announced the recognition of the Federation of Investment Managers Malaysia (FIMM) as a self-regulatory organisation (SRO) for the unit trust industry. Empowering the FIMM to self-regulate is important because being part of the industry, FIMM will be able to better understand and adapt to the ever changing needs of the industry. This compliments the SC's efforts to ensure a more efficient and effective regulatory regime without compromising investor protection.

SC to enhance oversight on Credit Rating Agencies

On 30 March, the SC issued *Guidelines on the Registration of Credit Rating Agencies* (Guidelines) to ensure independent and high quality ratings with appropriate oversight of the credit rating agencies (CRAs), given their key role in capital markets. The Guidelines enhance the agencies' standards in key areas such as transparency of rating criteria and policies, objectivity of rating process, managing conflicts of interest, and will also enable the SC to supervise CRAs in a more vigorous manner. These Guidelines supersede the *Practice Note on Recognition of Credit Rating Agencies for the Purpose of Rating Bond Issue*, issued by the SC on 25 January 2006.

Islamic Capital Market (ICM)

SC appoints Executive Director for Islamic Capital Market



On 12 January, the SC appointed Zainal Izlan Zainal Abidin as Executive Director of its Islamic Capital Market Department. Zainal Izlan will be responsible for the SC's operational, strategic and developmental initiatives in strengthening and sustaining Malaysia's leadership in Islamic capital market.

Zainal Izlan was formerly the Chief Executive Officer of i-VCap Management and brings with him over 20 years of industry experience and international exposure.

New measures to enhance investor protection

On 28 January, the SC and Bursa Malaysia Securities Berhad (Bursa Malaysia) announced a number of initiatives to enhance investor protection and achieve regulatory parity, provide shareholders with appropriate information for well-informed investment decision-making, and enhance sales practices for unlisted products.

The initiatives were based on feedback received from three consultation papers which included *Proposed Amendments to Bursa Malaysia's Listing Requirement on Privatisation of Listed Companies Via Disposal of Assets*, *Proposed Updates to Guidelines on Offer Documentation of the Malaysian Code on Take-Overs and Mergers 1988* and a *Review of Sophisticated Investors and Sales Practices for Unlisted Capital Market Products*.

For more details on the key initiatives from the consultation papers and public response papers, please visit www.sc.com.my.

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

The SC and the Oxford Centre for Islamic Studies (OCIS) jointly hosted a two-day closed-door Roundtable on Islamic Finance on 12–13 March in Ditchley Park, Oxfordshire. 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 the event.

The objective of the collaboration was to facilitate robust discussion and debate on topical Islamic Finance issues. This year's Roundtable, themed "Islamic Finance and the Public Good", was attended by a selected group of key industry practitioners, senior academicians, Shariah scholars, standard setters and regulators from around the world to discuss and exchange views and ideas for the global advancement of Islamic Finance. In conjunction with the SC-OCIS Roundtable, a special dinner was held on 11 March at the Banqueting House, Whitehall, London at which HRH Raja Dr Nazrin Shah was the guest-of-honour. The dinner was organised in order to enable networking between senior government officials, regulators, academia and prominent members of industry with interest in Islamic finance from Malaysia, United Kingdom, Europe and the Middle East.

Enforcement News

Company directors jailed and fined over share manipulation

On 7 January, Datuk Philip Wong Chee Kheong and Francis Bun Lit Chun, directors of Suremax Group Bhd (Suremax), were convicted under section 84(1) of the *Securities Industry Act 1983* (SIA) by the Kuala Lumpur Sessions Court for their involvement in the manipulation of Suremax shares.

They were involved in creating a misleading appearance of active trading in the shares of Suremax by trading in nine accounts without any change in the beneficial ownership of the shares on the stock exchange. Datuk Philip was sentenced to a 24-month imprisonment and a fine of RM3 million; while Francis was sentenced to a three-month imprisonment and a fine of RM2 million.

Company director convicted for securities fraud and money-laundering activities

On 10 January, the Kuala Lumpur Sessions Court convicted Raja Noor Asma Raja Harun, Director of FX Capital Consultant and FX Consultant, for operating a ponzi scheme that duped over 4000 investors of more than RM100 million. She was also convicted for taking part in money laundering activities under the *Anti-Money Laundering and Anti-Terrorism Financing Act 2001*.

Raja Noor Asma was sentenced to a five-year imprisonment and a fine of RM5 million for operating a ponzi scheme and a two-year imprisonment for taking part in money laundering activities. The sentence meted out by the Kuala Lumpur Sessions Court marks one of the heaviest punishment against a capital market offender, reflecting the gravity of the offence.

High Court allows SC's appeal against MEMS Technology and imposes 6-month jail sentence

On 11 January, the High Court allowed the SC's appeal against the Session Court's sentence on former directors of MEMS Technology Bhd (MEMS), Ooi Boon Leong and Tan Yeow Teck, whom had previously been convicted under s122B(b)(bb) of the SIA for reporting misleading information amounting to RM30.17 million in fictitious sales. Ooi and Tan had pleaded guilty before the Sessions Court in February 2010 and were fined RM300,000 each. The High Court upheld the original fine of RM300,000 and enhanced the sentence with a six-month imprisonment term each.

Upcoming Capital Market Events

The next SC-Bursa Malaysia Corporate Governance Week will commence the week beginning 4 July. 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 3rd Visiting Scholar Programme under the collaboration of the SC and University Malaya will commence on 6-30 June with Professor Volker Nienhaus, Visiting Professor at the Henley Business School of the University of Reading, UK. For further information, please email VisitingScholarProgramme@seccom.com.my