

Capital • My

July 2011

Quarterly news bulletin of the Securities Commission Malaysia

Executive Summary

Downside risks to global growth and financial markets continued to increase in the second quarter, punctuated by several sovereign downgrades in the eurozone and inflation risks in both the advanced and emerging economies. The correction in the commodities market in May has led to a similar decline in the US and regional stocks, albeit at a slower pace.

The Malaysian stock market performance mostly mirrored that of other markets in the Asia-Pacific region. The Kuala Lumpur Composite Index continued to hover around 1,540–1,560 levels. In the domestic bond market, benchmark yields for short-to-medium term papers have narrowed as the market has priced in implications of high oil and food prices. Lack of domestic leads and global uncertainty will result in investors adopting a wait-and-see attitude. Market liquidity may therefore decline, possibly making the domestic stock and bond markets susceptible to event risk.

Gross issuance of corporate bonds in the second quarter of 2011 increased significantly to RM21.86 billion from the RM15.31 billion in the corresponding period last year. This reflected the continued upward momentum of fund-raising activities in the domestic market.

Foreign participation rose to its highest levels in the second quarter of 2011 as foreign investors were encouraged by attractive yields in the domestic market and expectations of continued strengthening of the ringgit.

The SC approved fund-raising proposals amounting to RM39.74 billion of which 86% was for debt securities. There were nine IPOs for the Main Market with a total potential market capitalisation of RM17.04 billion. In addition, there were two offers for take-overs valued at approximately RM203.56 million.

As part of its international engagement, the SC continues to participate in the IOSCO and its Emerging Markets Committee, as well as organised a roundtable on Islamic fund management in Luxembourg on 11 May which attracted distinguished Shariah scholars, regulators and industry participants from all over the world. Additionally, the SC also signed an MoU with the Office of the Agricultural Futures Trading Commission of Thailand (AFTC) on 27 May.



”The CMP2 forms another vital contribution to the collective and co-ordinated efforts to invigorate the economy through expanding the role of the capital market in financing the country’s development.”

Dato’ Sri Mohd Najib Tun Abdul Razak,
Prime Minister of Malaysia at Invest Malaysia 2011.

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Malaysia's Capital Market Masterplan 2

On 12 April, the Capital Market Masterplan 2 (CMP2) was launched by Prime Minister Dato' Sri Mohd Najib Tun Abdul Razak at Invest Malaysia 2011. The SC's strategic blueprint for the development of the Malaysia capital market in the next 10 years, CMP2 will leverage on the sound foundation built during the first CMP where 95% of the 152 recommendations have been implemented in the last 10 years.

Themed *Growth with Governance*, CMP2 tackles the challenges for Malaysia's capital market in expanding its role in invigorating national economic growth while addressing concerns about the efficacy of markets in the aftermath of the global financial crisis. The SC will implement CMP2 through its annual business planning process. In this regard, major deliverables have already been identified for 2011. These include a five-year corporate governance blueprint which was launched in July and the *Guidelines on the Registration of Credit Rating Agencies* issued in March. Other deliverables for this year are a regulatory framework for private retirement schemes and the review of the regulatory framework for fund-raising and product approval as well as for licence renewal.

Following is an outline of CMP2 strategies:

GROWTH

- Promote capital formation
- Expand intermediation efficiency and scope
- Deepen liquidity and risk intermediation
- Facilitate internationalisation
- Build capacity and strengthen information infrastructure

GOVERNANCE

- Enhance product regulation to manage risks
- Expand accountabilities as intermediation scope widens
- Robust regulatory framework for a changing market place
- Effective oversight of risks
- Strengthen corporate governance
- Broaden participation in governance

The SC launches Corporate Governance Blueprint



The SC's five-year Corporate Governance Blueprint (CG Blueprint) was launched on 8 July by Dato' Seri Ahmad Husni Mohamad Hanadzlah, Minister of Finance II, Malaysia. The CG Blueprint provides the action plan to raise the standards of corporate governance in Malaysia by strengthening self and market discipline and promoting greater internalisation of the culture of good governance.

Developed through a highly consultative process, the CG Blueprint focuses on six connected themes of the corporate governance ecosystem namely shareholder rights, the roles of institutional investors, boards, gatekeepers and influencers, disclosure and transparency as well as public and private enforcement.

SC Strengthens Ties with Thailand on Commodity Futures Trading

On 27 May 2011, two memoranda of understandings (MoUs) were signed to further strengthen bilateral ties and to enhance cross-border co-operation on commodity futures between the capital market regulators and exchanges of Malaysia and Thailand. The first was an MoU between the SC and the Office of the Agricultural Futures Trading Commission of Thailand and the second between Bursa Malaysia Derivatives and the Agricultural Futures Exchange of Thailand.

The MoUs aim to facilitate greater regulatory co-operation and sharing of expertise in the area of commodity futures, and encourage greater exchange of information to further support the development of commodities futures markets in both countries.

SC Q1 Scorecard: Sustained interest continued in 2011

On 21 April 2011, the SC released its Q1 scorecard with the SC receiving a total of 35 substantive applications compared with 27 in the previous quarter with a total potential market capitalisation of approximately RM3.72 billion (US\$1.25 billion).

Compared with Q1 last year, the ringgit-denominated sukuk market this quarter saw significant interest with the SC approving five sukuk issuances amounting to RM7.77 billion (US\$2.61 billion), compared to the two approved during the same period last year which amounted to only RM0.59 billion (US\$0.20 billion). The SC maintained its high performance standards with 96 percent of corporate proposals and 99.84 percent of licensing application processed within the time charters. A total of 1,390 licence applications were received in Q1 2011, setting the stage for vibrant growth of the market, both in terms of quantity and quality of the players.

Market Developments

Fund management companies' compliance guidelines revised

On 23 May, the SC released a revised version of the *Guidelines on Compliance Function for Fund Managers* to enhance client asset protection and further safeguard the interests of investors in a number of areas. Revisions include:

- Tighter requirements relating to transparency and professionalism for fund management companies when highlighting the features, characteristics and risks of their investment products;
- The need to provide quarterly updates on the performance of each client's portfolio against appropriate benchmarks and any subsequent changes in risk, as well as the potential impact of these risks on the client's investment; and
- The prohibition from recommending, or investing client's funds in products which they themselves do not fully understand in terms of structure, pricing mechanism and nature of underlying assets.

Client asset protection is enhanced via a clarification that only foreign financial institutions which are appropriately authorised to provide custodial services in their home jurisdictions may be appointed as custodians.

The revised guidelines also introduce 11 core principles aimed at promoting a culture of compliance, professionalism, ethical standards and responsible conduct which fund management companies and their representatives are required to uphold in the conduct of their business.

Islamic Capital Market

Updated List of Shariah-Compliant Securities

On 27 May, the SC released an updated list of Shariah-compliant securities approved by its Shariah Advisory Council (SAC). The updated list features a total of 847 Shariah-compliant counters which constitute 89% of the total 957 listed securities on Bursa Malaysia. The list includes 24 newly-classified Shariah-compliant securities and excludes five from the previous list issued in November 2010. The next update will be in November 2011.

Roundtable on Islamic Fund Management

In conjunction with the 8th Islamic Financial Services Board (IFSB) Summit in Luxembourg, the SC held a roundtable on Islamic fund management at the *Chambre de Commerce*, Luxembourg on 11 May. The roundtable enabled Malaysian Islamic fund management companies to learn about the regulatory and operating framework in Luxembourg. In addition, the roundtable also presented opportunities for participants to discuss issues on Islamic fund management as well as facilitated networking and exploration of business opportunities between industry players in Malaysia and Luxembourg.

The roundtable, chaired by the SC, was attended by over 30 participants, comprising regulators and industry players from Luxembourg and Malaysia.

SC hosts 3rd SC–University of Malaya Visiting Scholar Programme

The SC hosted the closed-door lecture on 9 June. Dr Volker Nienhaus, a visiting professor from University of Reading, and the visiting scholar under the SC–University of Malaya Visiting Scholar Programme, presented his views on “Islamic Capital Markets and the Public Interest (*Maslahah*)”. The closed-door lecture was attended by 32 participants comprising lawyers, practitioners, academicians, researchers, regulators, credit rating executives as well as accountants.

6th Islamic Markets Programme

On 27–29 June, the SC, through the Securities Industry Development Corporation, organised the 6th Islamic Markets Programme (IMP) themed ‘The Role of Regulation in Overcoming Challenges in Developing Islamic Markets’. The IMP provided a platform for senior regulators and participants from the financial industry to debate and discuss the challenges of growth in regulating Islamic markets as well as solutions to overcome them from a regulatory perspective. The three-day programme attracted more than 42 delegates from various countries including Germany, Turkey, UAE, Hong Kong, Taiwan, Brunei, Maldives and Iran.

SC receives awards for Islamic Capital Market efforts

On 17 June, the SC received the prestigious ‘Outstanding Contribution to the Development of Islamic Capital Market’ award at a dinner held in conjunction with the 5th London Sukuk Summit from 8-9 June. The SC’s Islamic Capital Market Consultant, Wan Abdul Rahim Kamil was also recognised with an award for ‘Outstanding Leadership in Islamic Finance.’

Enforcement News

Bestino Group Bhd Directors charged by the SC

On 21 April 2011, the SC charged company directors, Chong Yuk Ming and Balachandran a/l A Shanmugam, under section 232(1) of the *Capital Markets and Services Act 2007* (CMSA) for failing to register a prospectus with the SC in relation to the issuance of redeemable preference share by Bestino Group Bhd. If convicted, Chong Yuk Ming and Balachandran will be liable to a fine not exceeding RM10 million or to imprisonment for a term not exceeding 10 years or both.

Kosmo Technology Group MD charged

On 7 June 2011, The SC charged Dato’ Norhamzah Nordin, Managing Director of Kosmo Technology Industrial Bhd for providing false information to Bursa Malaysia Securities Bhd in eight of the company’s quarterly reports on the unaudited consolidated results for the financial years 2006 and 2007. This followed the charges against Mohd Azham and Lim Hai Loon at the Session court on 26 May 2011.

The SC preferred six charges under section 122B(a)(bb) Securities Industry Act 1983 (SIA) and another two charges under section 369(a)(B) CMSA where if convicted, Dato’ Norhamzah will be liable to a fine not exceeding RM3 million and imprisonment for a term not exceeding 10 years for each charge.

Dato’ Norhamzah, Mohd Azham and Lim Hai Loon will be jointly tried on 14–25 November 2011.

Remisier loses final bid to avoid imprisonment

On 23 June 2011, the Court of Appeal upheld the High Court’s decision to convict Lua Yik Hor, a former remisier at KAF Seagrott Campbell Sdn Bhd, on 30 charges of short-selling of shares. Lua was charged on 21 May 1996 at the Kuala Lumpur Sessions Court for shortselling 960,000 units of North Borneo Timber Bhd shares on 27 March 1995.

In 2000, Lua was convicted of all 30 charges for the said shortselling and sentenced to two years imprisonment on each charge, all to run concurrently.

The Court of Appeal also dismissed Lua’s appeal against the High Court’s judgment and ordered Lua to start serving his sentence from 23 June.

Jail sentence for illegal fund manager upheld

On 5 May 2011, the Kuala Lumpur High Court affirmed the conviction of businessman Phazaluddin Abu under section 15A of the SIA and under the *Anti-Money Laundering and Anti-Terrorism Financing Act 2001* (AMLATFA) for acting as an illegal fund manager through the website www.danafutures.com. A total of 52,000 investors has invested in this unlicensed scam which resulted in a collection of over RM65 million.

Phazaluddin’s sentences of four years imprisonment under the SIA, and two years imprisonment for each of the three convictions under AMLATFA were also upheld. This was the first conviction in the country for an illegal online investment operation.