

Capital • My

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Quarterly news bulletin of the Securities Commission of Malaysia

The global financial turmoil has resulted in markets around the world generally falling by about 45% in 2008. The Malaysian capital market has been similarly affected by global trends and has not been insulated from price swings. However, holistic capital market development has insulated the stock market from financial vulnerabilities affecting other markets. The fundamentals of our national economy remain healthy and the Malaysian market has demonstrated financial soundness, continuing to price assets in a fair and orderly manner.

The relative resilience of Malaysia's markets today is a result of the measures introduced following the 1997/98 Asian financial crisis. We have a more balanced investor base, with a stronger domestic institutional presence, more resilient market intermediaries through consolidation, capitalisation and more active risk management; and generally stronger corporate and household fundamentals.

The SC's priority, particularly in the last one year, has been on managing immediate challenges to ensure market integrity and investor protection and has been directing its regulatory and supervisory focus to where risk priorities are highest. The SC has been working closely with Bank Negara, the central bank, and the industry to ensure risks are managed pro-actively and pre-emptively. Apart from intermediation activities, corporate developments are also closely monitored.

Despite the uncertain economic outlook and cautious investor sentiments in Q4 of 2008, there have been positive regulatory developments in the Malaysian capital market. A milestone achievement, is the recent IOSCO assessment undertaken by the SC with external experts to assess the Malaysian capital market regulatory framework against international standards of securities regulation. The successful results achieved from the IOSCO assessment reaffirms that the Malaysian capital market regulatory framework, which maintains a high level of efficiency, fairness and transparency, is internationally benchmarked and is on par with many of the developed markets.

“Structural reforms undertaken over the last decade since the Asian crisis have enabled us to withstand the worst of the global contagion. Sustained efforts at strengthening the regulatory and supervisory framework have enabled our markets to operate with relative stability.”



– SC Chairman, Zarinah Anwar,
looking back at 2008

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Malaysia scores top marks for compliance with international standards in securities regulation

The SC recently underwent an independent third party assessment to determine the extent to which the Malaysian capital market regulatory framework complies with the International Organisation of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulation. The SC achieved a very high level of implementation, having been assessed as fully implementing virtually all of the IOSCO Principles.

The rigorous and intensive assessment, which was conducted by a team of four securities market regulatory experts, reviewed key aspects of securities regulation, including the responsibilities of the regulator, its enforcement powers, the regulation and supervision of primary and secondary markets and market intermediaries, and the management and operation of unit trusts.

The 30 Principles were adopted by IOSCO in 1998 and are the key global benchmark for the regulation of the capital market. The Principles aim to ensure that markets are fair, efficient and transparent, protect investors and reduce systemic risk. The IOSCO Principles are also used by leading International Financial Institutions, such as the World Bank and the International Monetary Fund to assess a country's practice of regulation and supervision of securities markets in the Financial Sector Assessment Programmes. The IOSCO Principles are also one of twelve standards and codes highlighted by the Financial Stability Forum as key to sound financial systems and deserve priority implementation.

Capital market regulators globally are strongly encouraged to implement the IOSCO Principles in their respective jurisdictions.

Inaugural India-Malaysia Capital Market Forum held in Mumbai

The Securities Commission of Malaysia and India's capital Market regulator, Securities Exchange Board of India (SEBI) jointly organised a one-day India-Malaysia Capital Market Forum on 20 November 2008 in Mumbai. A 30-member delegation from Malaysia attended the forum, led by the SC Chairman, Zarinah Anwar and attracted over 200 participants from India.

The objective of the Forum was to raise awareness of the regulatory structures and market development and investment opportunities in both capital markets.

Chairman Zarinah said that Malaysia saw India as an important market player in the region and that the Forum enabled both India and Malaysia to explore opportunities and work further on strengthening the linkages between the two markets.

She adds, "With realignment of global business and growth shifting momentum to Asia, there is now increased opportunity for both countries to strengthen our partnership in the financial market."

Speakers and participants from both countries, namely, regulators and exchanges, government officials, investment banks, fund and asset managers and other market players (or participants) shared their experiences in the various market segments. The Forum provided an overview of potential opportunities in stock exchanges, mutual fund and investment management, corporate finance and Islamic finance.

Licences to India's Reliance Asset Management and Kuwait Global Investment House

The SC has granted approval to India's Reliance Asset Management and Kuwait's Global Investment House to establish their Islamic fund management operations in Malaysia.

The two join three other international Islamic fund managers already licensed by the SC namely, Kuwait Finance House (Malaysia), DBS Asset Management and CIMB Principal Islamic Asset Management.

In addition, the SC is reviewing applications by other international financial institutions keen to make Malaysia their regional and global centre for Islamic fund management activities.

These applications reaffirm the growing interest among international players to make Malaysia the global hub for their Islamic fund management activities.

Reliance Capital Asset Management is India's largest asset management company in terms of assets under management and manages funds launched by Reliance Mutual Fund, the largest mutual fund house in India.

Kuwait-based Global Investment House is a leading asset management and investment banking company with a wide distribution network encompassing 16 countries across the Gulf Cooperation Council (GCC), the Middle East and North Africa (MENA) region, and other emerging markets.



Bumiputera Equity Allocation Relaxed

As part of the government's efforts to ensure Malaysia's capital markets are more competitive, Malaysia's Finance Minister Najib Tun Razak announced that companies seeking listing on Bursa Malaysia can now open their shares to the wider public through the IPO balloting process, should they not be fully subscribed.

This initiative will further enhance the efficiency of this process while ensuring that the Bumiputera equity conditions imposed on domestic companies as part of the listing conditions remain in line with the overall objective of the National Development Plan. Besides creating greater certainty and significantly shortening the time to listing, this step will enable wider participation by the general Bumiputera public in the initial public offering process.

Further details are available on the SC's website at www.sc.com.my

Two New Corporate Governance Funds Launched

UK's Hermes Equity Ownership Services Ltd (Hermes EOS) and ASEAN-based Corston-Smith Asset Management teamed up to launch the ASEAN Corporate Governance Fund and the Asean Shariah Corporate Governance Fund respectively, both the first of their kind globally. These two new funds provide a minimum absolute return via responsible shareholder activism and will invest in companies from the ASEAN region, namely Singapore, Thailand, Indonesia, the Philippines and Malaysia.

The Asean Corporate Governance Fund will be seeded by Britain's BT Pension Scheme and is expected to raise £200 million from international institutional investors within two years. The Asean Shariah Corporate Governance Fund already has a formal commitment of RM100 million. Minimum investment is RM50 million.

Under the partnership, Hermes EOS will provide corporate governance advisory services to the fund while Corston-Smith will screen for companies with good business models and average-to-good transparency levels.

Exchange News

Sukuk and Debt Securities Allowed to Be Listed on Bursa Malaysia

Bursa Malaysia introduced new rules under its listing requirements for listing Islamic securities or *sukuk*, and debt securities on its exchange. Under the new framework, *sukuk* or debt securities denominated in ringgit and foreign currencies issued by local and international listed and non-listed entities can be listed on the exchange. The requirements under the framework are also comparable with practices in other exchanges that provide similar listing facilities, and applications for listing will be approved within one day by the exchange.

The listing of these instruments, both *sukuk* and debt securities, will enhance transparency for investors and offers valuable profiling opportunities for issuers of the instruments.

Listing fees for *sukuk* or debt securities listed under this framework before 2010 will be waived to encourage issuers to list such instruments.

This new measure is expected to further position the Malaysian Islamic capital market as a premier Islamic investment hub.

Bursa Malaysia Launches New Securities Trading Platform

Bursa Malaysia successfully launched its Bursa Trade Securities trading platform on 1 December 2008. The new trading platform marks the completion of the exchange's integrated trading system that will provide greater accessibility for local and international investors as well as enhance trading efficiency and transparency in the market.

The first phase of Bursa Trade was implemented in 2006 for the derivatives market. Bursa Trade is powered by the NSC® trading system from NYSE Euronext.

As the trend in global exchanges is for greater speed, access and control in trading, Malaysia is also leveraging on new technologies to allow market users and investors access to more trading opportunities. The new trading system is a scalable platform with the potential to support future initiatives and innovative products such as multi-currency products.