

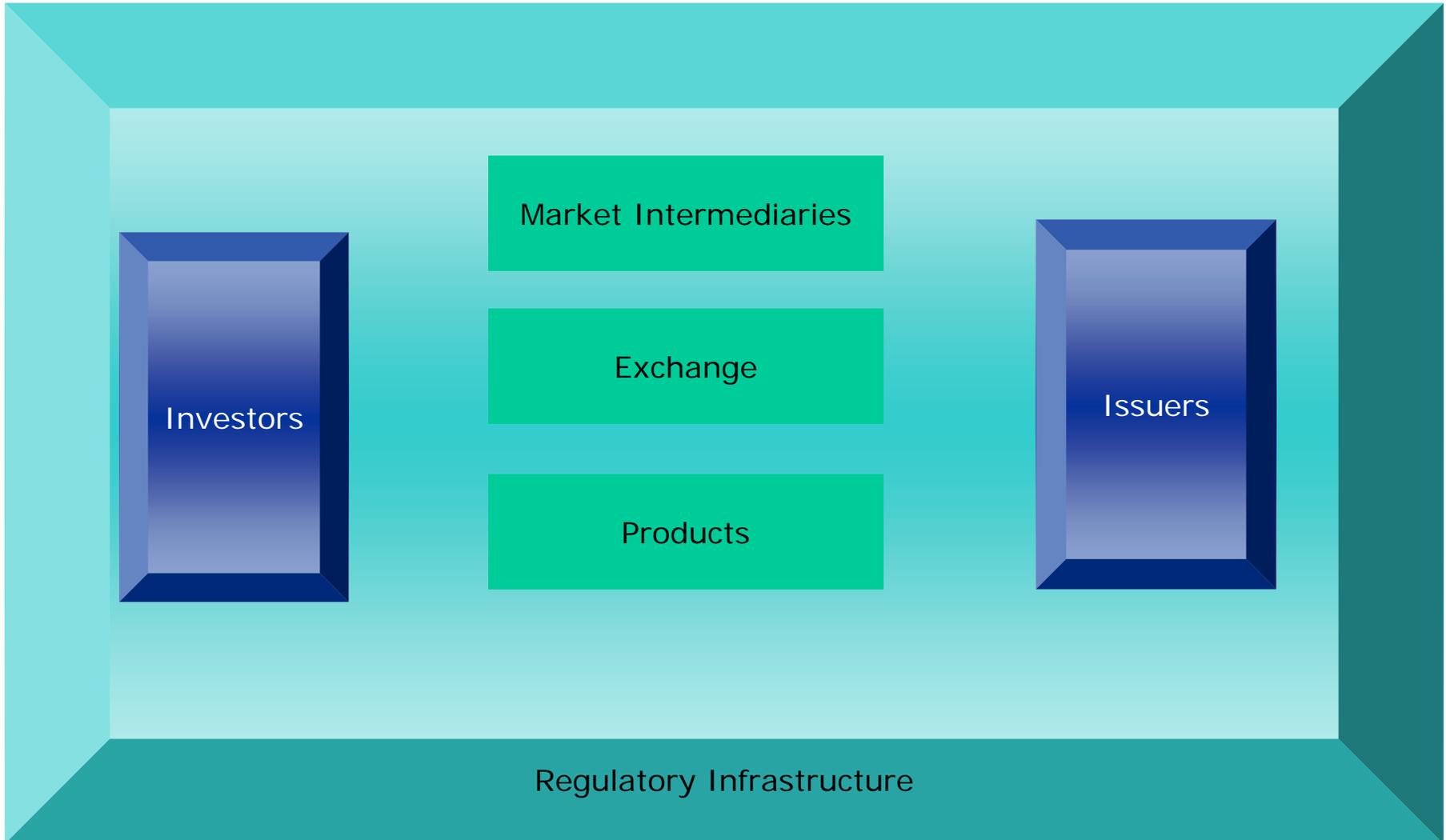
Fundamentals of the Malaysian Capital Market

The Investors Conference 2005
- in conjunction with the 30th Annual Meeting
Islamic Development Bank

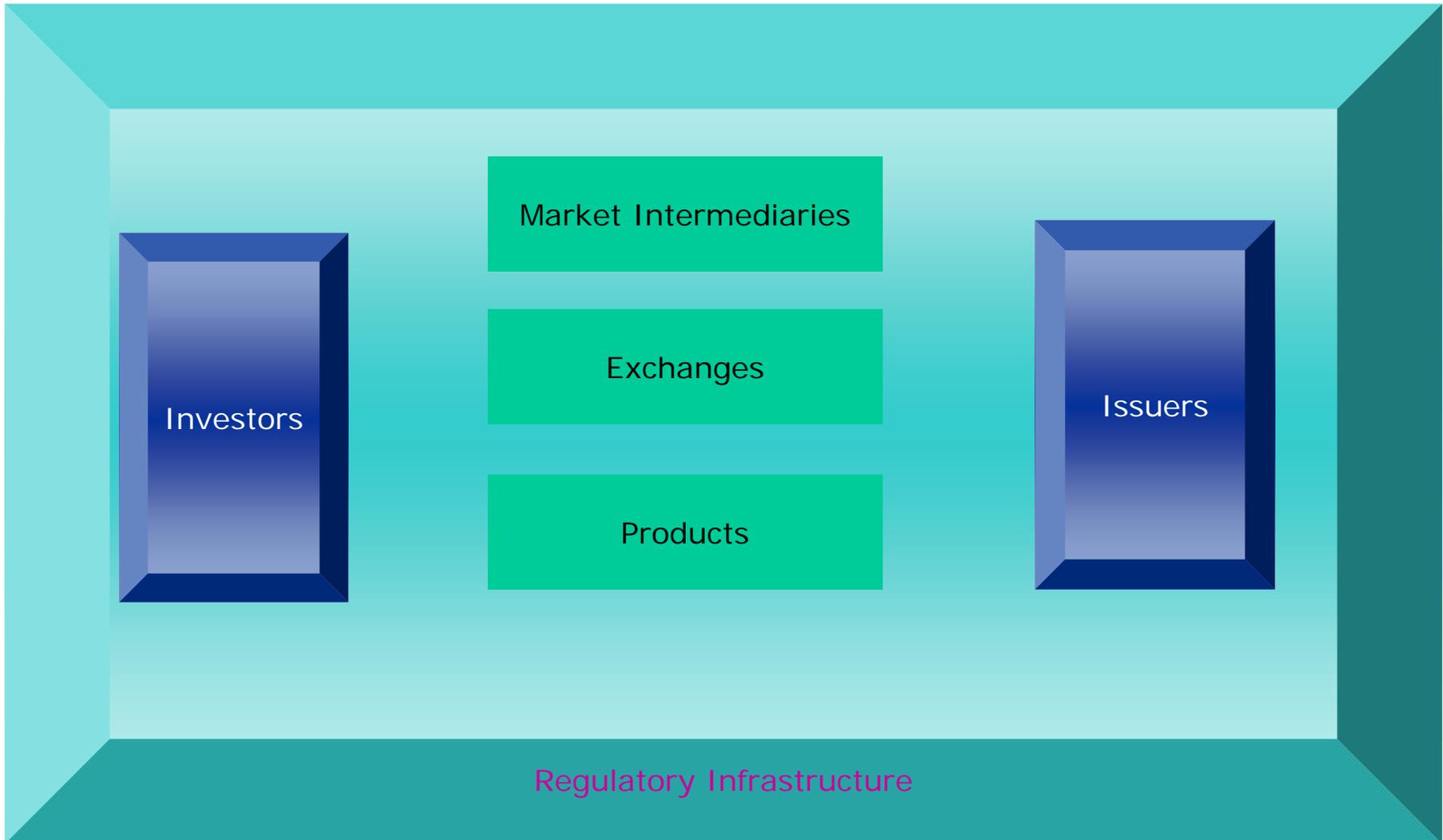
Ranjit Ajit Singh, Director
Securities Commission Malaysia
June 2005



Fundamentals of the Capital Market



Fundamentals of the Capital Market – The Regulatory Infrastructure



Regulatory Infrastructure

- The Malaysian capital market regulatory framework has been developed to perform the following functions –
 - To enable mobilisation and allocation of capital in the most efficient manner,
 - To provide a high level of market confidence
 - To ensure fair markets & protection of investors
 - To encourage innovation with minimum compliance cost

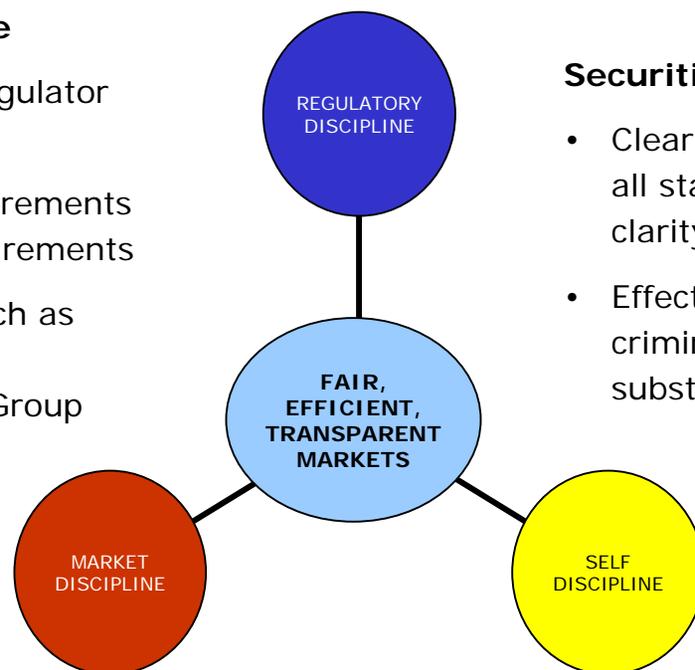
Our Regulatory Philosophy

“The regulatory regime must be able to adapt and respond to the realities and implications of the changing financial landscape in a timely and appropriate manner; in order to ensure that the capital market continues to operate fairly and efficiently and that its role in supporting the economic, financial and commercial interests of its constituents is further enhanced”

Variety of mechanisms utilised to create an efficient and effective regulatory framework

Industry-led best practice

- Utilisation of front-line regulator and SRO functions
- Incorporation of CG requirements in exchange Listing Requirements
- Shareholder activism, such as through the Minority Shareholders Watchdog Group



Securities regulation

- Clear powers, functions and obligations of all stakeholders provides transparency and clarity to the market
- Effective avenues for redress (civil, criminal and administrative) and substantive sanctions

Framework for Self Management

- Regulatory requirements e.g. disclosure requirements, audit committees, ability for insiders to act as whistle blowers to inculcate internal discipline.
- Risk management requirements
- Education progs for all stakeholders on rights and responsibilities

Laws and regulation in the capital market

Securities Laws

- Securities laws are administered and enforced by SC :
 - Securities Commission Act
 - Securities Industry Act
 - Securities Industry (Central Depositories) Act
 - Futures Industry Act
 - Demutualisation Act

Rules of the Exchange

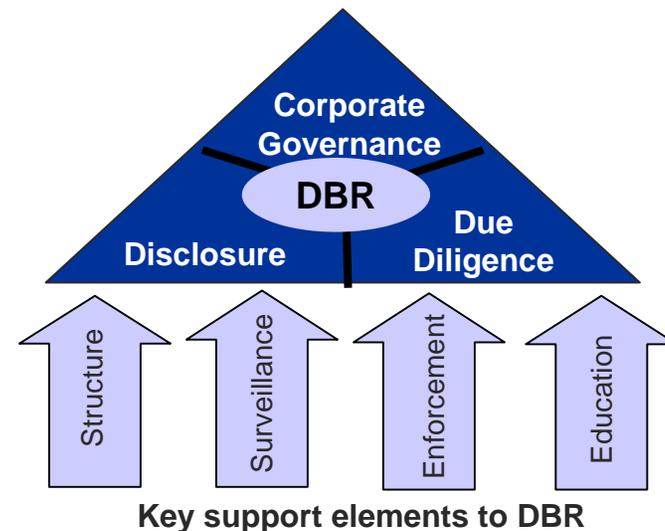
- Listing Requirements
- Trading Rules
- Rules of the Central Depository and Clearing House

Other laws and Regulations

- Companies Act which regulates company activities including fraud and director's fiduciary duties and company winding up.
- Financial Reporting Act – establishes the Financial Reporting Foundation and the Malaysian Accounting Standards Board and accords legal status to MASB accounting standards

Access to accurate and quality information underpins capital market regulation and investor protection

- ↪ Securities laws and Listing Requirements require timely, accurate disclosure of material facts both in primary and secondary market activities
- ↪ Disclosure requirements relate to :
 - ↪ Financial reporting : mandatory quarterly reporting, based on international standards
 - ↪ Non-financial reporting : in relation to material events or other information which may affect investors' decisions
- ↪ Strict requirements and heavy sanctions on providers of information e.g. the plc and their officers, experts and advisors
- ↪ Regulation of RPT, insider trading; etc. regulates equitable use of information



Shift to a disclosure-based regime for corporate proposals :

- Greater choice of investment with different risk profiles
- Greater regulatory efficiency : shortening approvals process
- Encourage innovation of products and quality of corporate advise

Holistic CG framework encourages focus on shareholder value creation

Accountability to Minority S'holders

- Directors have strict fiduciary duties to act in the interest of all shareholders
- Continuing education prog for PLC directors on duties and obligations
- 1/3 BOD required to be independent directors
- Critical management functions also required to act in interest of shareholders

Facilitating investor activism

- Minority Shareholder Watchdog Group established to strengthen role of minority shareholders in company decisions
- Ongoing education for investors of their rights and responsibilities
- Market forces and competitive pressures : plcs developing new and innovative growth strategies

Responsible and Ethical Behaviour

- PLCs beginning to inculcate a risk management culture in management
- Internal controls to manage insider fraud & securities laws violations
- High levels of transparency in regulatory frameworks requires plcs to adopt an effective communications strategy – development of investor relations functions

Legislation are supported by a strengthened supervisory and enforcement regime

- Increased surveillance capacity

- Proactive financial reporting and corporate surveillance function
- Co-operation with other enforcement agencies and regulatory authorities, both local and foreign

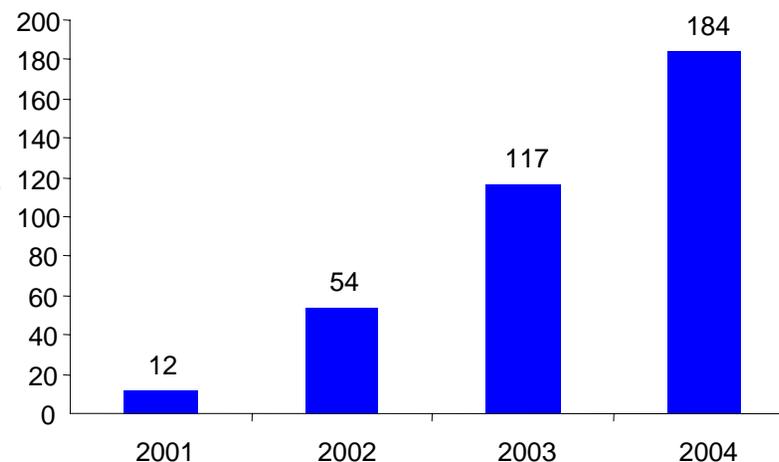
- Greater enforcement capabilities

- wider scope of application, including breach of any securities laws, licensing conditions; wider range of civil remedies available to SC, investors and market institutions
- Whistle-blowing provisions : auditors now have mandatory duty to report breaches of securities laws and regulations to the relevant authorities; provided with statutory protection.
- Dedicated criminal court for capital market offences

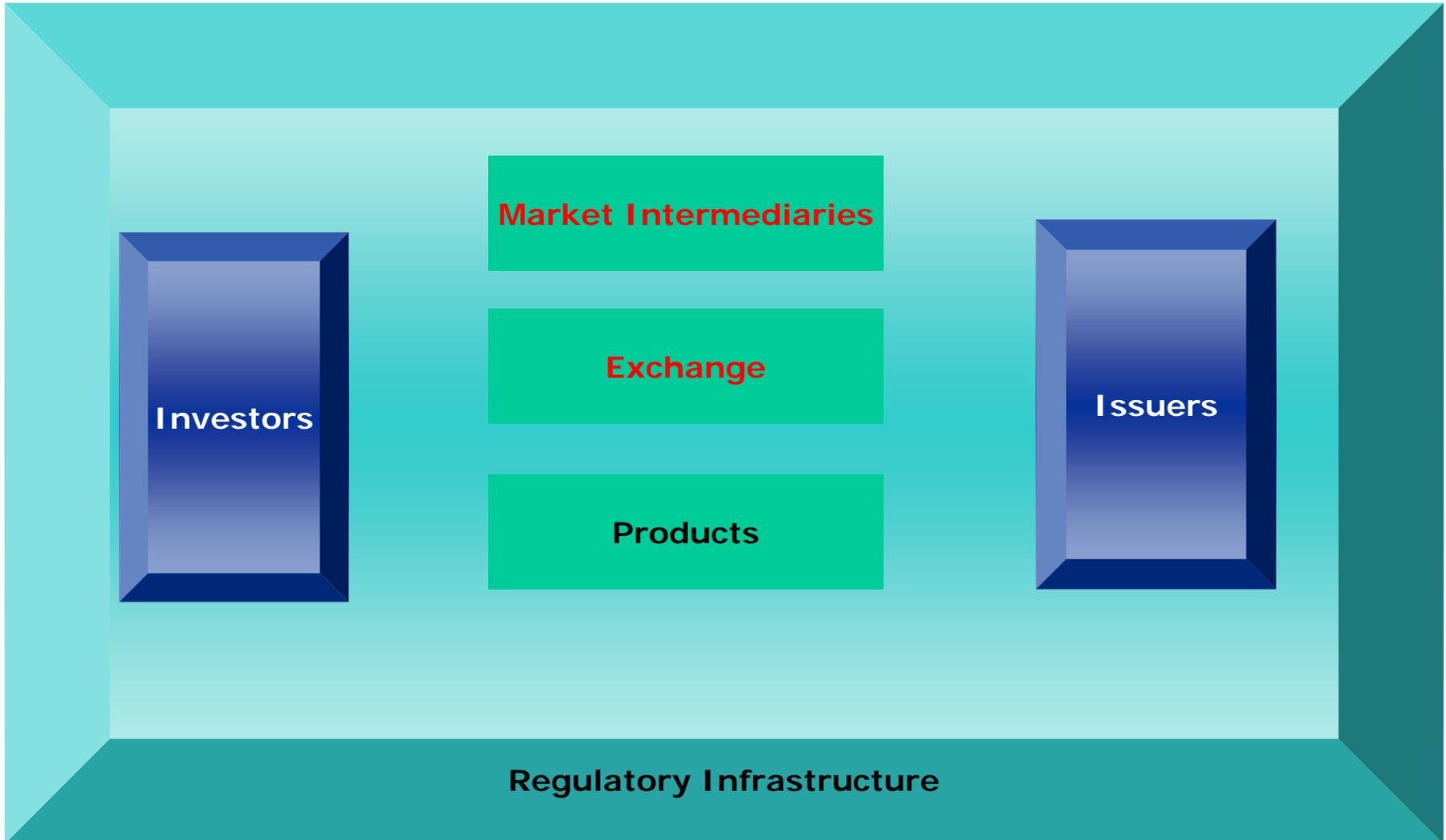
- Risk-based supervision

- Earliest in Asia to adopt risk-based supervision framework and methodology for supervising market institutions and intermediaries

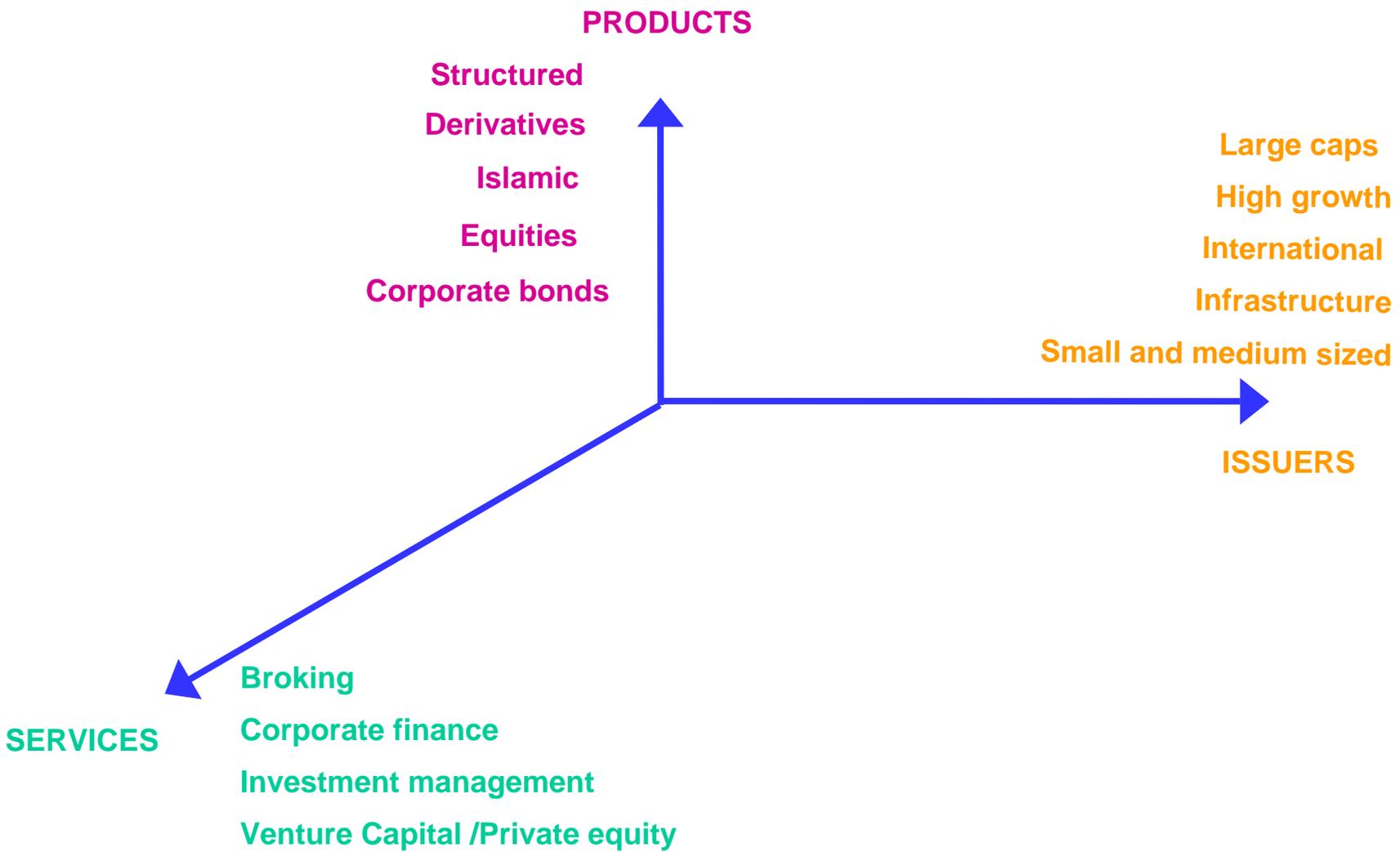
PLC surveillance programme



Fundamentals of the Capital Market – the Intermediation Process



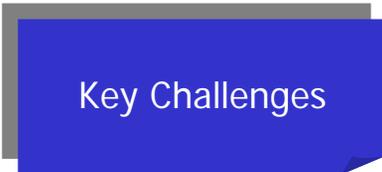
Malaysia offers a wide breadth of intermediation services to cater to needs of investors and issuers



Stockbroking industry – efforts have focused on enhancing competitiveness and resiliency



- Currently 32 SBCs, reduced from 66 through a process of industry-led consolidation - well capitalised and strong balance sheets
- Scope & range of services - deregulated to include corporate advisory, derivatives & bond trading. Currently SBCs offer full range or niche services
- Deregulation of regulatory restrictions e.g. branching restrictions, electronic access, reduction of commission rates, fully negotiable for institutional trades
- Introduction of risk-based capital adequacy framework
- Liberalisation of the market to allow 5 foreign brokers to operate in Msia :
 - To attract players that can best contribute to building value of Malaysian capital market.
 - To provide opportunities for enhanced product development, international distribution and attracting order flow.



- ❖ Facilitate the transformation of business models to enhance liquidity, create value & strengthen international competitiveness to meet future challenges.
 - Need to provide choice in services, products and access
 - Leverage on technology, strengthen ability to tap foreign markets
 - Strengthen service and innovation cultures

Malaysia has a huge potential for managed funds growth



Investment Management

- Total assets under management (including funds managed by unit trust industry) amounted to RM114.1 billion (US\$30 billion)
 - NAV of unit trust funds was US\$23 billion or 12% of equity market size at the end of 2004
 - Currently 75 fund managers and 36 unit trust management cos
 - Unit trust companies and fund managers may now invest abroad the full amount of NAV attributed to non-residents and up to 30% of NAV attributed to residents
 - Development of financial planning to complement investment management functions
 - Liberalisation – 5 foreign fund managers allowed to operate in Msia
-
- ❖ Enhancing competitiveness and vibrancy of the industry
 - ❖ Mobilisation of savings into the investment management industry : Current monthly net inflows into Employees Provident Fund alone is well in excess of RM1 billion (US\$250 million). EPF assets worth about US\$60 billion
 - ❖ Developing the private pension fund industry
 - ❖ Widening product offering : global funds, ETFs



Key Challenges

Development of complementary services enhances breadth and depth to the market



Venture Capital

- Capital market continues to play an important role in funding small and high-growth companies through
 - Venture capital / private equity
 - Listing on Mesdaq
- As of 2004 : 332 investee companies
- Total cumulative investments up to 2004 : RM 1 billion
- The venture capital industry has been fully liberalised to foreign participation



Investment Banks

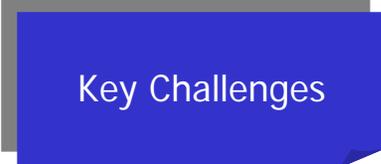
- Implementation of a new framework in Q205; streamlining of existing merchant banks and broking arms
- Key initiative in capital market intermediation services related to fund raising
- Jointly regulated by SC and BNM

Enhanced international competitiveness of the exchange



Stock
Exchange

- Demutualised and listed following consolidation of various derivatives and securities exchanges. Currently offers wide scope of trade facilitation services :
 - 3 equity boards : Main Board, 2nd Board, MESDAQ and derivatives exchange, fully electronic trading platform
 - Clearing & Settlement for equity & derivatives, DvP, T+3 rolling settlement cycle
 - Central Depository : fully scripless, book entry
- 989 cos listed and mkt cap of RM665.8bn (US\$175 bn) as at 31 May '05.
- Exploring strategic partnerships within the region and planning technological enhancements



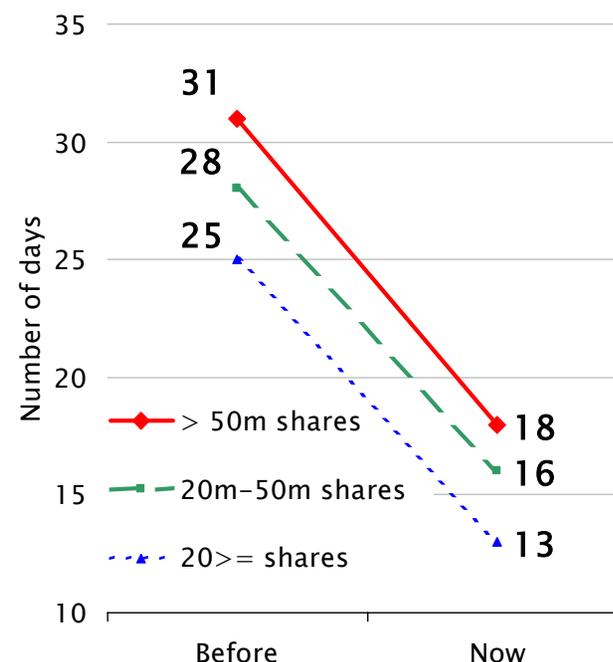
Key Challenges

- ❖ To enhance the international compatibility and positioning of the exchange
- ❖ To ensure premier position of exchange and preferred market for domestic investors and issuers.
- ❖ To facilitate mechanisms to build market liquidity.

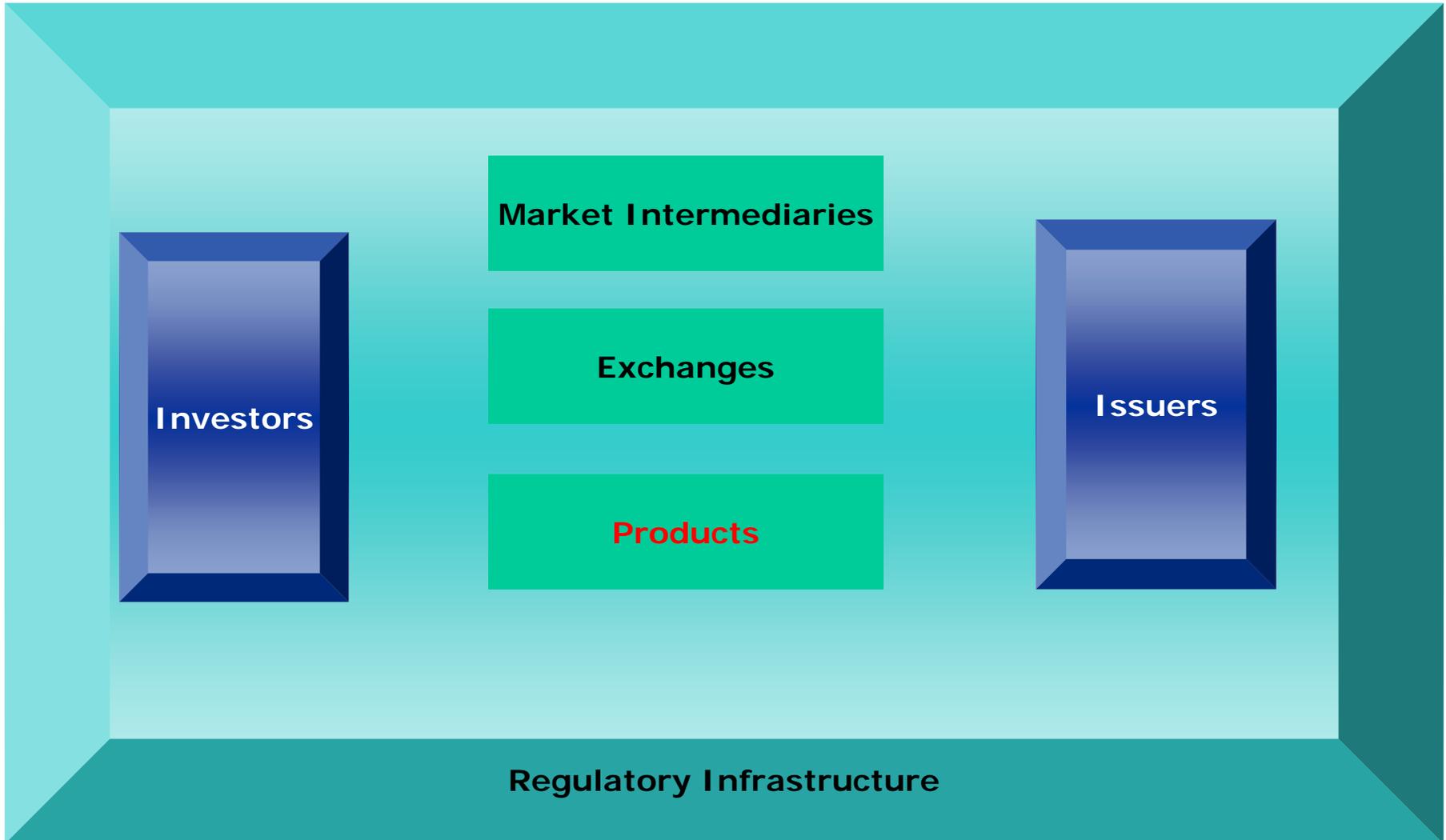
Efficiency and cost effectiveness is key to the success of the financial services sector

- **Transaction fees have been reduced**
 - SCANS, SCORE and SC levy fee reduced and stamp duty capped
 - Futures broking commissions fully negotiable
 - Securities commission rates for institutional trades fully negotiable
- **Improved Service Delivery**
 - Substantial reduction in time-to-market for IPOs
 - Approval of rights issues: down to 21 market days from 1-3 months previously
 - Registration of abridged prospectuses: down to 7 market days from 45 market days previously
 - Registration and lodgement of renewal of unit trust prospectuses: down to 7 market days from 1 month

Reduction in time-to-market for IPOs



Fundamentals of the Capital Market - Products



The capital market has grown to become an integral of Malaysia's financial system

As at end 2004

- Total size of capital market**

Capital market RM1.1 trillion (US\$289 bn)
Banking sector assets RM873.1 billion (US\$230m)

- Market capitalisation** RM722 bn (US\$190 bn)

1990 : RM 131.7 bn (US\$52.7bn)

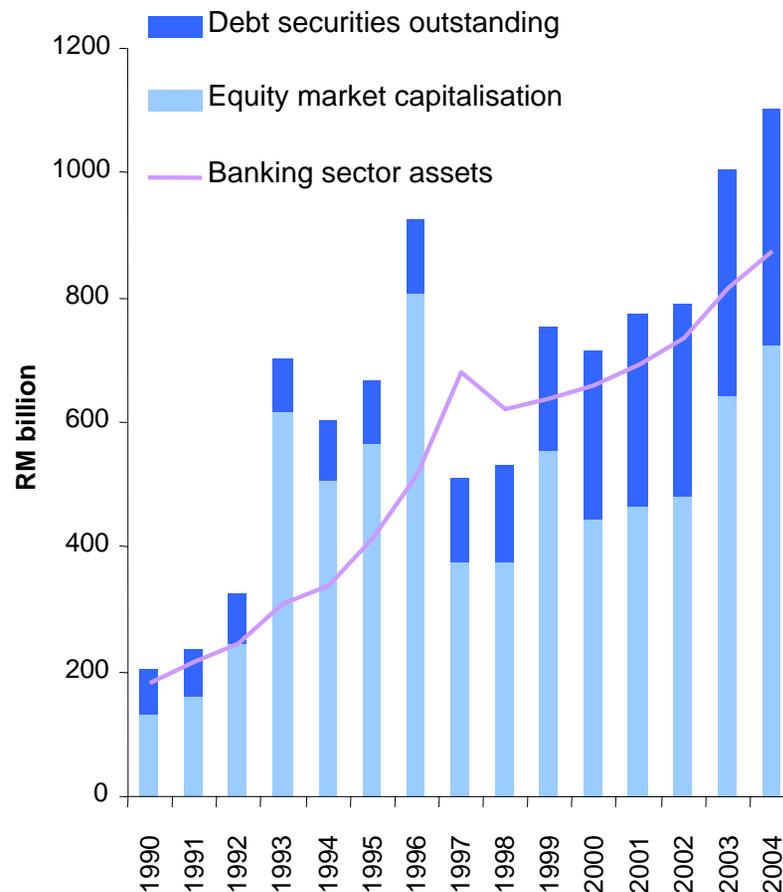
- Debt securities outstanding** RM 379 bn (US\$100 bn)

1990 : RM 69.27bn (US\$27.7bn)

- Funds raised in 2004** RM92 bn (US\$24 bn)

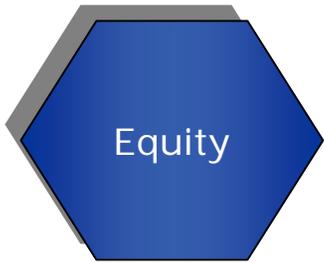
1995-1999: RM190 bn (US\$61 bn)*

2000-2004: RM 393 bn (US\$103 bn)

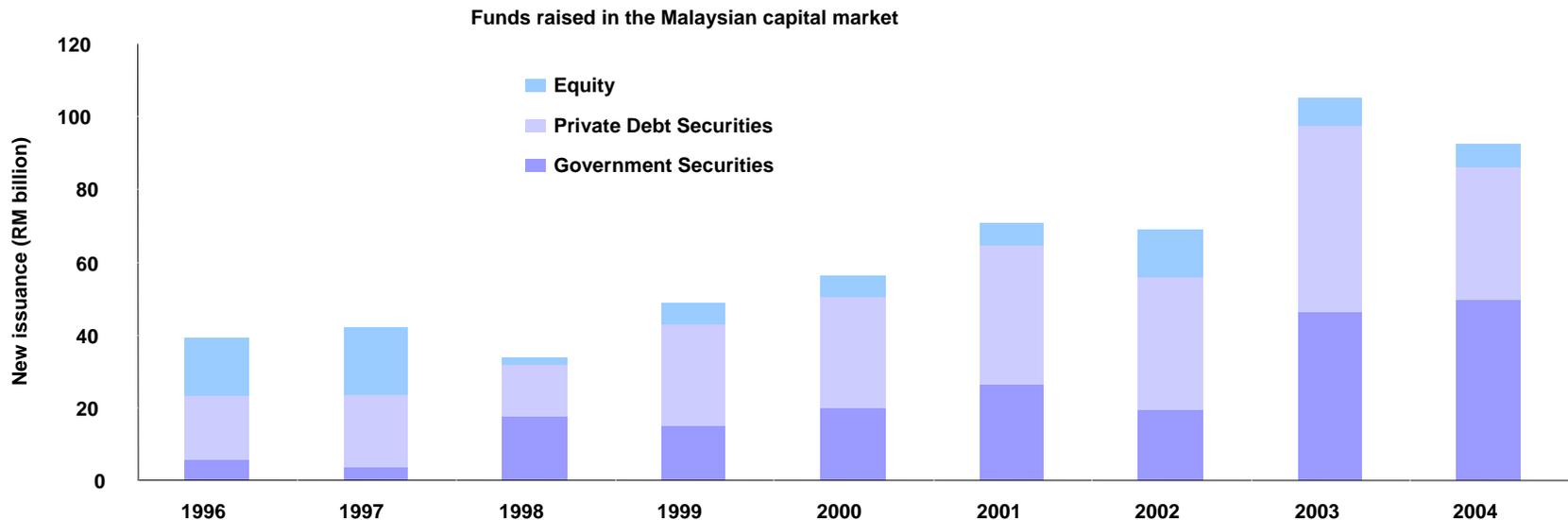


*Using average annual end-year exchange rate during 1995-99

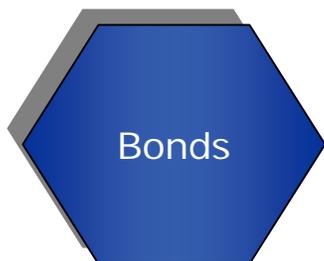
The equity market has been a major source of funding



- RM6.5 bn (US\$1.7 bn) total funds raised through equity market in 2004.
- High growth market - MESDAQ with 81 companies, 9 Infrastructure Project Cos listed, flexibilities granted for listing of large-cap cos
- Large pool of investable companies with 989 companies listed on Bursa Malaysia Main Board (as at 31 May 05). 36 stocks with market cap \geq US\$1b, of which 19 have average daily turnover $>$ US\$1m (Average of 2001-2003)
- Divestment of government holdings to increasing free float of shares and greater outsourcing by major provident funds to enhance liquidity

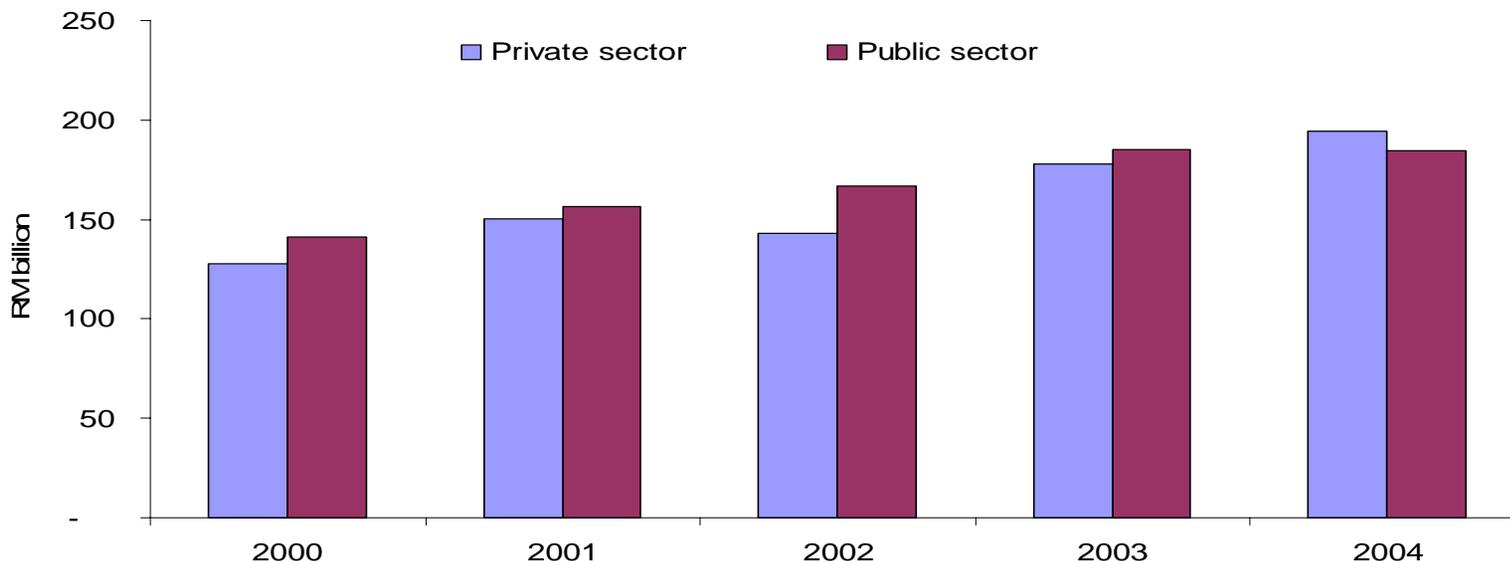


However, the bond market now plays a critical role in capital raising



- Provides an important alternative in company's fund raising activities
- RM36.3bn (US\$9.6bn) raised through PDS in 2004
- Asset securitisation: 6 ABSs issued in 2004
- Ringgit bonds issued by multinationals and supranationals

Total Debt outstanding (Public sector v Private sector)



Wide array of products catering to different risk appetites



Derivatives

- Contracts currently offered in Bursa Malaysia Derivatives Bhd (BMDB)
 - KLCI Futures
 - KLCI Options
 - 3, 5, 10-Year MGS Futures
 - CPO Futures
 - 3-Month KLIBOR Futures
- Full liberalisation of the derivatives sector



Structured Products

- Guidelines on the Offering of Structured Products, released in Dec-03, to spur growth in this area.
- Under the rules, such instruments can be offered to high net worth individuals or corporate clients for a min transaction of RM250K, as long as they are principal-protected.
- Since the release of the Guidelines, 14 submissions (total of US\$ 755 million) have been received. Comprises of 13 submissions for ringgit SPs of RM17.99 billion and and 1 submission for USD SPs of USD750 million
- Q1 2005 : 5 issues approved (conventional SPs) worth a combined RM 8.3b

Islamic products continue to expand

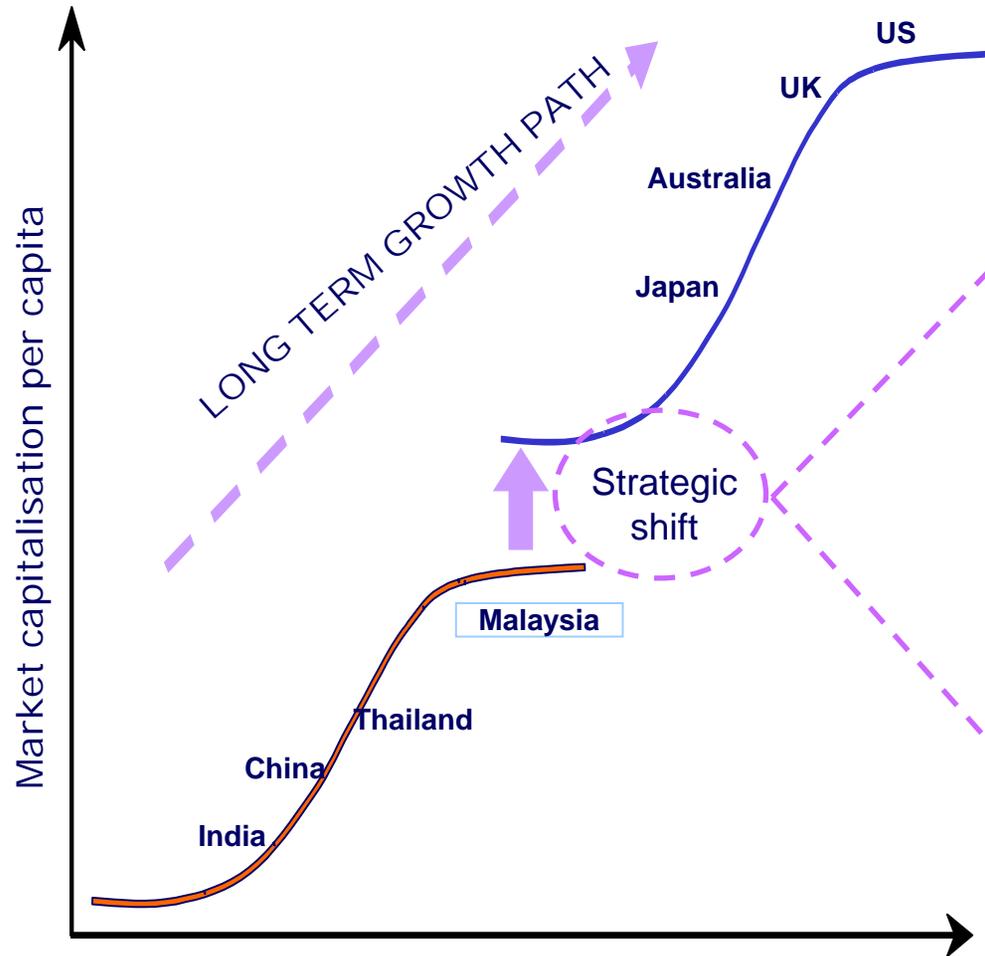


- 826 Shariah approved counters as at 15 Apr : about 83% of listed companies
- RM9.1bn (US\$2.4bn) funds raised through Islamic bonds, 25% of total PDS
- More innovative offerings:
 - First domestic Islamic corporate bond of RM160m (US\$42.1m) based on Ijarah
 - Five year global sukuk of US\$350 million
 - First Islamic ringgit bond issuance by a supranational of RM500m (US\$131.6m)
- Introduction of “umbrella” framework for Islamic securities that streamlines regulatory framework for such products (Jul 2004)
 - Guidelines facilitate introduction of a wider range of Islamic instruments, particularly those issued under the *Shariah* principles of *Mudharabah* or *Musharakah*.
- Over a 10 year period from 1995 - 2004, the NAV of Syariah based unit trust funds grew at a compounded annual growth rate of 26.2% while the overall industry grew at 7.9%

Islamic Unit Trust Industry	2000	2001	2002	2003	2004
No of approved funds	17	32	44	55	71
Approved funds size (billion units)	5.7	10.2	17.0	24.8	38
NAV (RM billion)	1.7	2.4	3.2	4.6	6.8

Challenges Ahead for the Malaysian Capital Market

Making the “strategic shift”



Strategic focus on :

- Enhancing competitiveness
- Enhancing quality of markets
- Enhancing efficiency and quality of intermediation
- Enhancing international compatibility
- Enhancing talent and skills pool

Thank you

Securities Commission
Malaysia

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