

**Securities Commission DBR Tracking Study**

**Executive Summary of Findings Relating to the Level of Awareness, Understanding a Perception of Affected Market Participants for DBR**

**Introduction**

The Securities Commission (SC) had commissioned a study to assess the readiness of market participants for regulation (DBR). This report presents a summary of study-findings relating to the **level of awareness, under perception of DBR among affected market participants** .

**Study Background**

The Securities Commission (SC) has embarked on a gradual shift in its regulatory framework from merit-base (MBR), where the SC regulates the offering of securities by reviewing and determining the investment merits c to DBR, where the SC regulates the quality of disclosure and investors determine the investment merits of the

The shift to DBR, which spans over a period of five years under three distinct phases, began in 1996 and is tar completion by the year 2001 with the planned adoption of a full DBR regime. The focus of the DBR programr

| Phase | Expected Time-Frame | Focus  |
|-------|---------------------|--|
| One   | 1996-1999           | Flexible/hybrid MBR with enhanced disclosure, due diligence and corporate governance   |
| Two   | 1999-2000           | Partial DBR with further emphasis on disclosure enhancement, due diligence and corporate governance as well as promotion of accountability and self regulation |
| Three | 2001 onwards        | Full DBR with high standards of disclosure, due diligence, corporate governance and exercise of self regulation  |

The key changes associated with the shift to DBR are as follows:-

- The responsibility of evaluation of corporate proposals for investment merit will shift from market author investing market.
- Changes in regulations regarding information disclosure requirements will become less prescriptive and the requirement that companies disclose "all information that a potential investor ought to know to make investment decision".
- Enhancement of the laws concerning accountability of public listed companies and their advisers for info disclosed in prospectuses and company reports.

Phase 1 of the DBR process was implemented in 1996 and saw the SC ceasing to set share prices for new issues. The SC is currently planning for the implementation of the second phase, which is due in 1999. However, before implementing the necessary procedures to effect the commencement of Phase 2, the SC wishes to assess their understanding of their key constituents of DBR and the phased implementation process.

### **Study Design**

The study was comprehensive, encompassing all key constituents of the SC and included both qualitative and quantitative research methods. Qualitative research methods (focus group discussions and in-depth interviews) provided information and enabled the development of hypotheses, whilst quantitative (telephone interviews) enabled them to test and measure the findings of the qualitative phase.

The key constituents / respondent groups included in the research were as follows:

- Issuers,
- Fund managers,
- Financial analysts,
- Stockbrokers,
- Industry associations,
- Merchant banks,
- Individual investors, and
- Consumers / the public.

The SC wishes to note that the sample size of the study on individual (retail) investors was insignificant in relation to the total retail investor population size. Hence, findings of this part of the study are not representative of the views of the total retail investor population.

### **Key Findings**

The findings of the DBR Tracking Study, which reflect the level of awareness, understanding and perception of market participants, can be summarised into three main areas:

1. Awareness and understanding of DBR and the SC's planned implementation process.
2. Appropriateness of DBR for the Malaysian market (Long-Term View).
3. Readiness of the Malaysian market for DBR (Short-Term View).

#### **1. Awareness and Understanding of DBR and the SC's Planned Implementation Process.**



Issuers, Intermediaries and Advisers

*(Please refer to Appendix, Figures 1)*

Almost all respondents had heard of the DBR concept and of the SC's plans to shift towards a disclosure-based regime. However, understanding of the concept and its major themes is, in general, quite limited and differs across market participant groups. There is a strong perception in the market that DBR means increased disclosure of information by issuers, rather than improving the quality, timeliness and relevancy of information disclosed. Among issuers, there is concern that DBR necessarily means increased disclosure of sensitive information.

Most respondents also focused on the impact of DBR on issuers and believe that the aim of implementing DBR is to increase the transparency of issuers. Few of the market participants spontaneously mentioned the shift of the SC's role from the issuing/listing process to regulation of information disclosure. However, many viewed the shift as a reduction in the SC's direct involvement in issuing activities.

Intermediaries that were most knowledgeable about both the DBR concept and the SC's shift towards a disclosure-based regime were:

regulatory regime were merchant bankers and other corporate finance professionals experienced in listing an securities. It is also noted that the issuers who belonged to relevant industry groups such as the Federation o Companies (FPLC) and Malaysian Institute of Corporate Governance (MICG) had a better understanding of l actions to implement DBR. More importantly, all these respondents understood that a crucial component of C issuers and their advisers (eg. bankers, accountants, lawyers etc) will be accountable for the accuracy of all ir disclosed in prospectuses and annual and other reports.

Although almost all respondents knew that the SC was planning to implement DBR gradually over the next fe about half of the respondents were aware of the three phases of implementation. However, the majority of in had no knowledge of the different measures that would be implemented in the second and third phases of Nonetheless, most were aware that, in Phase, 1 the SC had stopped setting prices for issues of securities unc offerings.

There is a feeling in the market that information relating to the planned phases of implementation has not bee communicated very well (*Please see Appendix, Figure 2*). Although some information has been periodically a newspapers and in SC communiques such as the annual report, the information has been vague and does nc details on exact changes that will occur at each stage.

## **2. Appropriateness of DBR for the Malaysian Market (Long-Term View)**

There is a general consensus that in the long term, a shift to DBR will benefit the Malaysian market (*Please re Figure 3*). Among market participants, the perceived benefits of DBR are as follows:

- It will provide issuers with greater flexibility in terms of the structuring of proposals to issue, offer or list conclusion is based on the premise that regulations covering issues, offers and listings will be less pre focus on information disclosure regarding the proposal rather than the structure of the proposal.
- The efficiency with which capital raisings can be conducted will improve. DBR will reduce the number c layers that are currently in place prior to a corporate proposal being submitted to the market.
- The performance standards of market participants will improve. The shifting of accountability for stater disclosure onto issuers and their advisers is perceived to assist in improving the sense of corporate res amongst market players and to improve due -diligence standards.

In general, market participants have two common, and related, concerns regarding the implementation of DB relates to the potential for information overload if information disclosure requirements expand considerably. C consideration needs to be given to the fact that issuers should only be required to disclose information that is decision-making process for a potential investor. Too much information can be a disincentive for potential inv thoroughly read prospectuses, and can cause confusion as to what is, and is not, relevant.

The second concern extends to the enforcement of disclosure, and other, regulations once implemented. Mai believe this is currently a function of the SC which is often overlooked, and which needs to be strengthened w implementation of DBR. The SC needs to establish credibility of the DBR regime by ensuring that regulations enforced and those that breach the rules will be prosecuted without "fear or favour".

## **3. Readiness Of The Malaysian Market For DBR (Short-Term View)**

*(Please refer to Appendix, Figure 4)*

Although issuers and intermediaries agree that DBR is favourable for the long-term development of Malaysia' there is a strong feeling among respondents that Malaysia's capital market is not yet ready for the implementa DBR regime. Most feel that a mixture of merit-based and disclosure -based is more appropriate in the short to The mixed MBR and DBR approach would see the SC continuing to have some involvement in the due diligi issues, offers and listings, particularly with regard to the accuracy of information. However, at the same time i enforce legislation on disclosure and make issuers accountable for the disclosed information.

Ultimately, market participants believe a number of changes need to be made in the market, or pre-requisites before full DBR is implemented. These changes are as follows:-

- (i) DBR requires high levels of corporate governance and transparency amongst all groups (issuers, front-line authorities).
- (ii) DBR requires legislation, rules and regulations to be comprehensible, and practical in terms of implementation interpreted consistently.
- (iii) Requires diligent enforcement of rules and regulations and breaches of regulations to be brought to account.
- (iv) Improved communication between the SC and market players, and enhanced transparency of the SC when DBR is implemented as smoothly as possible.
- (v) DBR requires investors to be sophisticated in terms of their ability to evaluate investment proposals.

### Appendices

Figure 1

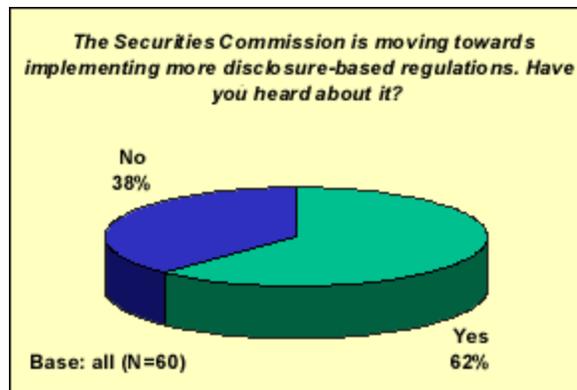
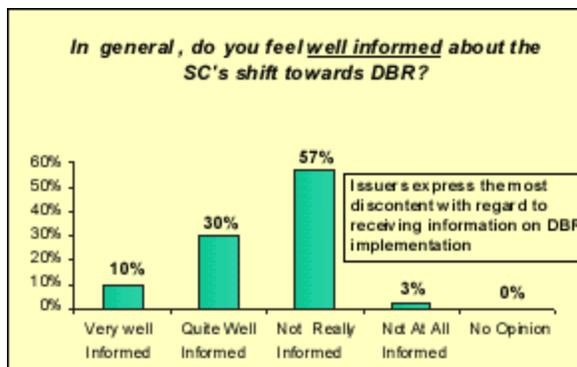
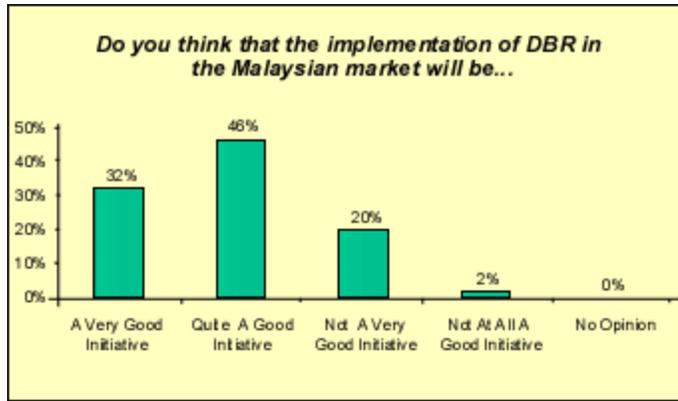


Figure 2



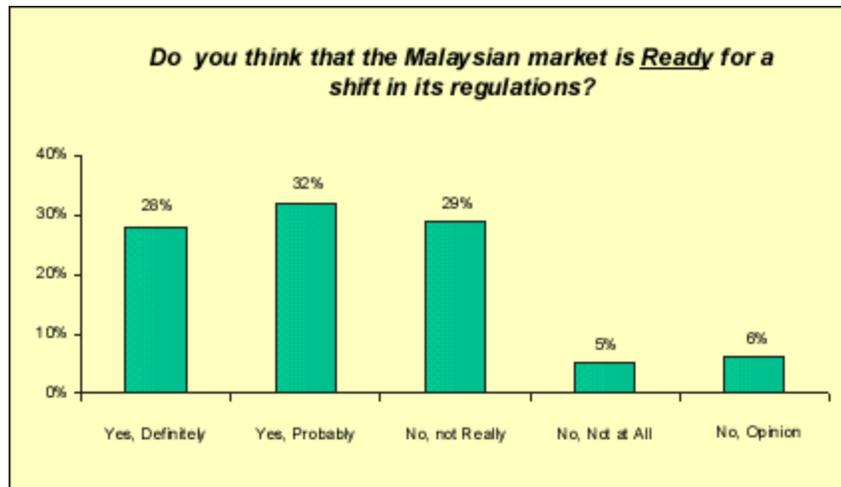
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Figure 3



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Figure 4



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