

### Key Capital Market Measures in 2005

Capital market measures introduced in 2005 focused on further strengthening the capital market by enhancing liquidity, efficiency, risk management, integrity, as well as promoting and accelerating the growth of the Islamic capital market. Key measures introduced in 2005 are summarised, as follows:

#### Enhancing Liquidity in the Ringgit Bond Market

- On 7 January, the Bank introduced several measures to further enhance the efficiency of the domestic bond market by increasing liquidity in the bond market and improving the price discovery process. The measures were:
  - i. **Repurchase agreements (repo) would be actively used as a monetary instrument** to manage liquidity in the banking system.
  - ii. Through the **Institutional Securities Custodian Programme (ISCAP)**, the Bank would borrow securities, mainly Malaysian Government Securities (MGS) from major institutional investors, for its repo operations.
  - iii. **Securities lending facility for principal dealers (PDs)** was enhanced to facilitate the market-making activities.
- On 31 March, the **ringgit-denominated bonds issued by Multilateral Development Banks (MDBs) and Multilateral Financial Institutions (MFIs)** were **included as eligible securities** to be transacted under repo operations with the Bank.

#### Enhancement of Risk Management Tools in the Bond Market

- With the liberalisation of foreign exchange administration regulations announced by the Bank on 1 April, **residents and non-residents were allowed to enter into hedging arrangements** with licensed onshore banks for committed inflows and outflows of funds.
- On 7 October, the Bank issued the **Guidelines on Regulated Short-Selling of Securities**. The regulated short-selling framework for MGS in the wholesale market was accorded to PDs, interbank participants and universal brokers.

#### Removal of Restrictions on the Utilisation of Proceeds from Bond Issuance

- With effect from 28 March, **the National Bond Market Committee's Negative List was repealed**, and restrictions imposed on the utilisation of proceeds derived from bond issues were removed. Nevertheless, the restrictions imposed by the Exchange Control Guidelines on Private Debt Securities for Lead Arrangers remained.

#### Infrastructure Development and Better Information System for the Bond Market

- On 4 July, the Bank introduced a new version of the **Fully Automated System for Issuing/Tendering (FAST)**. The new version was developed as a web-based application that is available to both FAST members and the public. The new version provided better controls as well as greater flexibility in performing primary market activities.
- Since 25 July, **information on indicative yields to maturity of government securities (conventional and Islamic) was published daily** to provide market participants with information on the market value of government securities.
- On 5 December, the Securities Commission (SC) **allowed a wider group of investors to access the Information Memoranda and Trust Deeds of ringgit-denominated bond issues database**, which would assist investors in making informed investment decisions. Previously, the database was only available to primary subscribers of bonds.

#### Promoting the Development of Real Estate Investment Trusts (REITs)

- On 3 January, the SC released **Guidelines on REITs** in an effort to accelerate capital market growth and establish a vibrant and competitive REIT industry in Malaysia. Key features included the relaxation of restrictions on REITs for the following transactions:

- Borrowings limits;
  - Acquisition of leasehold properties; and
  - Acquisitions of real estates that are encumbered by financial charges.
- In order to promote the development of REITs or Property Trust Funds (PTFs), REITs or PTFs approved by the SC were given the following tax treatment:
    - Chargeable income distributed to unit holders was exempted from income tax; and
    - The accumulated income that has been taxed and subsequently distributed was eligible for tax credit by unit holders.

#### **Promote the Growth of the Islamic Capital Market**

- On 21 November, the SC issued **Guidelines for Islamic REITs** to further facilitate the development of a new Islamic capital market product and thus, made Malaysia the first jurisdiction in the global Islamic financial sector to issue such guidelines. These guidelines were expected to serve as a global benchmark for the development of Islamic REITs.
- A new **profit-based Government Investment Issues (GII)** was introduced as an additional instrument to the existing discounted-based GII. The profit-based GII would be issued at par via the Islamic concept of *Bai Bithamin Ajil* and would be characterised by the element of profit, payable every half-yearly until its maturity. This instrument was poised to be the new benchmark for the issuance of long-term Islamic bonds and consequently, promote market liquidity.

#### **Enhancing Liquidity in Exchange-traded Products**

- On 28 June, the SC released guidelines to facilitate the **introduction of Exchange Traded Funds (ETF)**, which are open-ended investment funds that track specific indices, in an effort to create greater liquidity within the equity market.
- On 28 October, the SC issued **enhanced Guidelines to facilitate issuance of structured warrants** aimed at developing the equity derivatives market, building greater market liquidity and safeguarding market integrity. In addition, the SC also allowed the **introduction of Bull Equity Linked Structures (Bull ELS)**, an investment-yielding instrument linked to designated shares, which provides investors with returns depending on the closing price of the underlying shares on maturity.

#### **Promoting Quality of MESDAQ Companies**

- To promote the quality and investibility of MESDAQ companies, **new MESDAQ Market guidelines on entry requirements** were released on 29 November. These guidelines focused on ensuring companies seeking listing are of high quality companies, encouraging efficient and effective price-discovery process, enhancing the method of securities distribution and improving corporate governance.

#### **Liberalisation of Central Depository System (CDS) Accounts Requirements**

- Effective 21 October, the SC announced the **liberalisation of CDS accounts requirements** to allow a wider group of individuals to hold securities on behalf of others.

#### **Providing Greater Flexibilities for Merged Stockbrokers**

- **Stockbroking companies which completed 1+1 mergers** were permitted to **undertake additional activities of business**, as follows:
  - Allowed to undertake a full range of corporate advisory services, subject to certain criteria, such as shareholders' funds of at least RM100 million;
  - Permitted to operate futures broking activities within the stockbroking entity; and
  - Allowed to do unrestricted branching from 2006 onwards.

#### **Enhancing Investor Protection**

- On 15 March, the SC introduced compliance **guidelines for fund managers to further strengthen the level of investor protection**, which required fund managers to adhere to best practices for the following operations:

- Trading and portfolio management;
- Meeting 'know your clients' obligations;
- Proper execution of the roles and responsibilities of the Board of Directors and Compliance Officers;
- Safeguarding of clients' assets; and
- Compliance with the Anti-Money Laundering Act 2001.

#### Further Liberalisation in the Capital Market

- On 15 September, the SC introduced several measures to facilitate the diversification of investments by domestic investors and further enhance the efficiency of the Malaysian capital market. These measures include:
  - i. The framework on investments in foreign securities was revised to **allow investors to invest in foreign securities listed on recognised foreign exchanges**;
  - ii. Regulations on secondary market trading of non-ringgit bonds were liberalised to allow 'sophisticated investors' (i.e. commercial banks, merchant banks, Islamic banks, universal brokers or consolidated brokers) to **execute secondary trades of non-ringgit bonds without seeking approval from the SC**;
  - iii. The framework for primary offerings of non-ringgit bonds were revised to give **flexibility for the issuance of foreign currency-denominated bonds to 'sophisticated investors'**; and
  - iv. The **offering of foreign shares in Malaysia** was permitted subject to the SC's approval.

The above measures complemented the liberalisation of foreign exchange administration rules by the Bank on 1 April.

#### Improving Efficiency through Electronic Means

- On 17 February, the SC launched the **Electronic Licensing Application System (ELA)** to facilitate online submission and retrieval of information between SC and market participants. This effort was followed by the rollout of the **Continuing Professional Education (CPE) Tracker System** on 25 February.
- On 28 April, the SC released **guidelines of electronic contract note** in an effort to provide value-added services to investors.

#### Facilitating Corporate Sector Development

- To further facilitate faster execution of corporate proposals that require SC's approval (such as share buybacks, mergers and executions, etc.), prospectuses received by the SC will be **reviewed on a post-vetting basis** beginning 3 October. Hence, companies would be able to issue a prospectus within two weeks upon lodgement with the SC. In addition, to reduce the time to market, companies involved in takeovers would be required to issue offer documents containing detailed conditions within 21 days from the date of takeover notice, compared to 35 days previously.
- To encourage public listed companies to expand and compete globally, **exemptions were given for stamp duty and real property gains tax on merger and acquisitions (M&As)** undertaken by companies listed on Bursa Malaysia. This exemption was given to M&As approved by the SC from 1 October 2005 to 31 December 2007. Such M&As must be completed not later than 31 December 2008.

#### Providing a Facilitative Framework for Approval of Negotiable Instruments of Deposit

- The SC issued Practice Note 3 to the Private Debt Securities (PDS) Guidelines and Practice Note 3 to the Islamic Securities (IS) Guidelines on 6 April and 12 December respectively, to provide a more **facilitative framework for the approval of negotiable instruments of deposit (NIDs) and Islamic NIDs** with tenures of more than five years. The PDS Guidelines and IS Guidelines would no longer govern the approval process for NIDs and Islamic NIDs issuances by licensed institutions or Islamic banks. The new framework would facilitate a faster approval process.