

# Capital•My

April 2009

Quarterly news bulletin of the Securities Commission of Malaysia

The global financial market remained volatile with global growth prospects deteriorating sharply in the first quarter of 2009. Fears of a prolonged global recession and potential collapse of systemically important US banking institutions sent global equities to multi-year lows in February. Investor sentiment continued to deteriorate sharply as economic data released over the quarter show increasing evidence of the credit crisis's adverse global economic impact.

The US and Eurozone gross domestic product (GDP) declined by approximately 6% in the fourth quarter of 2008, while Japan's growth fell 13%. Growth also fell across emerging economies, reflecting the confluence of weakening external demand, tightening financing constraints and plunging commodity prices. Global inflation continued to fall rapidly, reflecting the sharp drop in economic activity and the collapse of commodity prices since mid-September 2008.

The Malaysian government and the Central Bank announced various measures including introducing strategies to stimulate and facilitate investment, trade and further liberalisation of manufacturing related services in the first quarter of 2009. The Finance Minister announced a second stimulus package worth RM60 billion (US\$16 billion) to be implemented over a two-year period from 2009 to 2010, in an effort to boost domestic growth in the wake of rapidly deteriorating global economic conditions. The stimulus package, equivalent to 9% of Malaysia's GDP, is expected to soften the impact from sharply declining world trade activities since last year. Of this amount, RM15 billion is fiscal injection, RM25 billion Guarantee Funds, RM10 billion equity investments, RM7 billion private finance initiative and off-budget projects, as well as RM3 billion in tax incentives.

As at 31 March 2009, Malaysia's international reserve stands at RM320.7 billion (USD87.8 billion), sufficient to finance 7.9 months of retained imports and was four times the short-term external debt. In separate development, Malaysia's business climate was rated by *Forbes* as the top 25 "Best countries for Business for 2009", moving up 13 spots from 2008. Malaysia was recognised as one of the biggest movers in the report. Among the 11 indicators used to assess business conditions, Malaysia performed best in terms of investor protection, taking the top spot worldwide.

In this first quarter, the SC announced several regulatory measures in line with the government's second stimulus package. As part of its ongoing efforts in investor protection and maintaining market confidence, the SC also took a number of significant enforcement actions.

## In this issue

- New measures to facilitate greater access to the capital market
- New guidelines to give greater flexibility for fund managers
- SC's review of 2008 and main thrust for 2009
- SC approves three new foreign Islamic fund management companies
- Enforcement news

## New measures to facilitate greater access to the capital market

Following the announcement of the second stimulus package by Finance Minister Najib Tun Razak on 10 March, the SC announced additional measures to facilitate greater access to the capital market. These measures, outlined below, were aimed at reducing time-to-market to enable companies to raise funds in the capital market in a more efficient and cost efficient manner.

1. Right issues by listed companies will no longer need the SC's approval.
2. Issuance and offerings of equity securities by unlisted public companies will be exempted from seeking the SC's approval as these companies usually have a relatively small number of shareholders.
3. The *Code on Take-overs and Mergers 1998* will no longer apply to private limited companies. This is to facilitate companies to undertake restructuring as well as take-overs and mergers.
4. The SC only needs to be informed of any amendments to the terms and conditions of bonds and *sukuk* issuances, which have already been approved by the bonds and *sukuk* holders.
5. The SC only needs to be informed of any revisions relating to the terms and conditions of bonds and *sukuk* for listing on Bursa Malaysia.
6. Convertible and exchangeable bonds will be exempted from mandatory rating requirements.

## New SC guidelines to give greater flexibility for fund managers

The SC introduced the *Guidelines on Wholesale Funds* allowing greater flexibility for licensed fund managers to provide innovative products, including those which incorporate alternative investment strategies. The new guidelines replace the *Guidelines on Restricted Investment Schemes* and the provisions on wholesale funds in the *Guidelines on Unit Trust Funds*, which have been rationalised and streamlined to make it easier for fund managers to offer wholesale and retail products.

Among the flexibilities are:

- Fund managers need to refer to only one set of guidelines for wholesale products;
- Fund managers are required to provide clear disclosure to investors and comply with the minimum content requirement of the information memorandum; and
- The frequency of reporting to investors has been increased to a quarterly basis from the previous annual basis for safeguard purposes.

More details of the guidelines are available at [www.sc.com.my](http://www.sc.com.my)

## SC's review of 2008 and main thrust for 2009

SC Chairman Zarinah Anwar provided a review of developments in 2008 and shared the SC's main thrust for 2009 during the release of SC's 2008 annual report. While Malaysia's capital market was not exposed to the kinds of imbalances and extreme adjustments that afflicted other markets, it was neither spared from the impact of global deleveraging, shrinking financial sector balance sheets, and extreme prudence in the investment, consumption and portfolio decisions of people and firms.

Review of the market in 2008 are as follows:

- **Fund-raising.** The Malaysian capital market sustained fund-raising activities in 2008 despite volatility in the markets. The SC approved 31 initial public offerings in 2008 compared to 26 in 2007.
- **Investment management industry.** Total funds managed by licensed fund management companies in Malaysia fell by 5.7% to RM223.5 billion as compared to 2007. The net asset value of the unit trust industry stood at 20.3% of market capitalisation in 2008 (15.3% in 2007). A total of 86 new funds were launched.
- **Islamic capital market.** The Islamic capital market remained a core segment of the Malaysian capital market. Shariah-compliant equities formed 64.2% of total market capitalisation in 2008 (63.7% in 2007). The value of outstanding *sukuk* rose to RM211.0 billion from RM199.1 billion in 2007, which accounts for 37%<sup>1</sup> of global *sukuk* issuance.
- **Venture capital.** The number of venture capital companies (VCC) and venture capital management companies increased to 108 in 2008 representing a 10% growth of 10%. The total amount of venture capital investments as at end of 2008 stood at RM1.9 billion, an increase of 8% from RM1.8 billion invested as at end of 2007.

Chairman Zarinah Anwar said that the main thrusts for the SC in 2009 will be maintaining investor confidence and ensuring that the markets operate in a fair and orderly manner. The SC will focus on providing an efficient and facilitative platform for fund-raising and corporate restructuring while upholding high standards of disclosure and transparency. At the same time, efforts will continue to be taken to strengthen the competitive positioning of Malaysia's capital market in the regional landscape through structural reforms in the area of capacity building and intermediation efficiency.

## SC approves three new foreign Islamic fund management companies

The SC granted approval to Aberdeen Asset Management, BNP Paribas Asset Management and Nomura Asset Management to establish their respective Islamic fund management operations in Malaysia.

They join five other companies which were also given approval, namely Kuwait FinanceHouse (Malaysia), DBS Asset Management, CIMB-Principal Asset Management, Global Investment House and Reliance Asset Management.

These applications reaffirmed the growing interest among international players to make Malaysia the global hub for their Islamic fund and wealth management activities. All three fund management companies are currently operating in Malaysia as foreign fund management companies under the special scheme where the SC issued up to five new licences and foreign fund managers are allowed to own 100% equity.

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<sup>1</sup> Source: Standard & Poor's, Kuwait Finance House Research.

## Enforcement News

### Court upholds conviction for short-selling of shares

The High Court upheld the decision of the Sessions Court where the accused was sentenced to two years' imprisonment for short selling of shares. The accused was found guilty of 30 charges of short selling North Borneo Timber shares in 1995.

### Former MIH operations manager sentenced to three years' jail and fined RM1 million

The Sessions Court convicted a former operations manager of Malaysian Issuing House (MIH) for his role in a fraud involving the balloting process of an initial public offering. He was sentenced to an imprisonment term of three years for the offence and a fine of RM1 million.

In addition to the accused, the SC had charged three other individuals who participated in the scheme. One pleaded guilty before trial commenced and was sentenced to 30 months imprisonment.

The other two accused, pleaded guilty half-way through the trial to charges. The Sessions Court's sentence against them of 20 months' imprisonment was substituted with a fine of RM30,000.

### SC charges former Welli Multi CEO

The SC charged the former Chief Executive Officer and Executive Director of Welli Multi Corporation Berhad (WCMB) for knowingly authorising the provision of a misleading statement to Bursa Malaysia Securities Bhd on its revenue in its quarterly report in September 2009.

The accused was released on bail of RM80, 000 with one surety. SC will be seeking a joint trial order for the accused along with two former WMCB directors who were charged for four counts of the same misdemeanour.

### Former Multi-Code directors charged with CBT and securities fraud

The SC charged the former Managing Director and the former Executive Director for defrauding Multi-Code Electronics Industries (M) Berhad (Multi-Code) and criminal breach of trust.

The accused were granted bail of RM 400,000 and RM200,000 respectively, with two Malaysian sureties each.

### SC appeals against the acquittal of Metrowangsa director

The SC filed an appeal against the decision of the Kuala Lumpur Sessions Court to acquit and discharge the former Executive Director of Metrowangsa Asset Management on a second charge of knowingly authorising misleading statements to be submitted to the SC.

The penalty upon conviction for this offence is a fine not exceeding RM3 million or imprisonment for a term not exceeding 10 years, or both.