Key Capital Market Measures in 2004

Capital market measures introduced in 2004 were aimed at further strengthening the capital market, improving the intermediary process and protecting investors. Key measures introduced in 2004 were as follows:

Strengthening the Bond Market

- Effective 1 April, Bank Negara Malaysia **liberalised the foreign exchange administration rules** to allow Multilateral Development Banks (MDBs) or Multilateral Financial Institutions (MFIs) and Multinational Corporations to raise ringgit-denominated bonds in the Malaysian capital market, in line with Malaysia's on-going efforts to enhance development of the domestic bond market. In facilitating the issuance of the ringgit-denominated bonds issued by MDBs or MFIs, various flexibilities were accorded. Among others, Bank Negara Malaysia classified ringgit-denominated bonds issued by MDBs and MFIs as liquefiable assets under the new liquidity framework for banking institutions, accorded 0% risk weight under the risk-weighted capital ratio framework and allowed deduction from eligible liabilities for the computation of statutory reserves requirements. In addition, for resident insurers, ringgit-denominated bonds issued by MDBs and MFIs are qualified as low risk assets to support their margin of solvency. Similarly, the Securities Commission (SC) also provided various flexibilities, which among others, included accepting international credit ratings and exempting MDBs or MFIs from various requirements of the PDS Guidelines.

- On 26 July, the **Guidelines on the Offering of Islamic Securities (IS Guidelines)** were introduced by the SC to further facilitate the issuance of Islamic securities in Malaysia. With the release of the IS guidelines, the PDS Guidelines were no longer applicable with regards to the issuance of Islamic securities.

- On 3 September, Bank Negara Malaysia **revised the regulatory treatment accorded to new Cagamas debt securities issued after 4 September.** The aim was to promote more market-based pricing and increase investors' interest in the new Cagamas debt securities. The revised regulatory treatment for all new Cagamas debt securities were as follows:
  - i. Holdings by banking institutions qualified for a 20% risk weight for capital adequacy purposes and Class-2 liquefiable asset status under the liquidity framework. In line with this, the threshold for Class-2 liquefiable assets recognised under the liquidity framework was increased to 50%;
  - ii. Cagamas debt securities would be subjected to the Single Customer Credit limit of 35% of total capital funds of banking institutions;
  - iii. Holdings by insurance companies were classified as 'credit facilities' and would continue to be accorded admitted asset status; and
  - iv. Primary issuance of Cagamas debt securities would be market driven.

- Effective 11 September, **tax exemption was given on interest income derived by non-resident companies** from ringgit-denominated Islamic securities and debentures, excluding convertible loan stocks, approved by the SC and securities issued by the Government of Malaysia.

Widening Market Coverage for the Equity and Derivatives Markets

- As announced in the Budget 2005 on 10 September, the Government announced several **liberalisation measures to strengthen the equity and derivatives markets** by increasing global market competitiveness, promoting innovation and widening market coverage; as follows:
  - i. **allow five major foreign stockbrokers to operate in Malaysia**;
  - ii. **allow five leading global fund managers** to participate in the institutional segment of the Malaysian fund management industry;
  - iii. **allow 100 percent foreign ownership in futures broking companies**;
  - iv. allow local stockbroking companies which have merged with at least one other stockbroking company to **establish four additional branches or Electronic Access Facilities Permitted Activities;** and
  - v. **abolish the limit** on the number of foreign dealer representatives.

Easing the Listing Process

- On 9 February, the SC announced some amendments to Schedule 1 of the Securities Commission Act 1993, which **allowed public companies to undertake bonus issues, employee share schemes and employee share option schemes (ESOS) without the need for a prior approval from the SC.**

Enhancing Disclosure by Listed Companies

- From 1 April, **listed companies that delay the submission of their financial statements for a period exceeding three months will be subjected to trading suspensions.**

- On 19 May, the SC released the "Prospectus Guidelines – Guidelines Supplement 1 for listing of Foreign-Incorporated Companies" to **enhance the disclosure requirements for foreign corporations seeking listing** in Bursa Malaysia.

- On 30 November, Bursa Malaysia Securities Berhad **amended the Listing Requirements** in relation to listed companies with unsatisfactory financial conditions and levels of operations. The amendments, among others, required listed companies to submit their regularisation plans within eight months in lieu of trading suspensions and de-listment from the Bursa Malaysia.

Enhancing Stockbroking Companies' Resilience

- On 28 October, the SC announced **revisions to the capital requirements framework for stockbroking companies** to provide the stockbroking industry with greater flexibility in managing their capital requirements as well as to enhance the overall competitiveness. The new capital requirements framework, among others, reduced the minimum paid-up capital for Universal Brokers (UBs) to RM100 million from RM250 million previously and required a minimum level for shareholders' funds unimpaired by losses of RM20 million for non-UBs and RM100 million for UBs.

Improving Investors Protection

- On 25 February, the SC announced several **amendments to the securities laws to better safeguard investors' interests and further enhance corporate governance.** The securities laws included the Securities Industry (Amendment) Act 2003 (SIA), the Securities Commission (Amendment) Act 2003, the Futures Industry (Amendment) Act 2003 and the Securities Industry (Central Depositories) (Amendment) Act 2003. The amendments were aimed at:
  i. enhancing client's asset protection;
  ii. introducing whistle blowing provisions;
  iii. strengthening the framework on investment advice;
  iv. enhancing civil and administrative action powers; and
  v. strengthening clearing and settlement arrangements.

Promoting the Fund Management Industry

- On 28 April, the SC issued a guidance note to the unit trust guidelines that **allowed more Malaysian-incorporated licensed banks and licensed merchant banks to act as guarantors for guaranteed funds.** The guidance note, which aimed at promoting the growth of the unit trust industry in Malaysia, requires the guarantor to have a minimum long-term rating that indicates adequate safety for timely payments of financial obligations and have a credit profile which is regarded as adequate by any global or domestic rating agency.

- On 24 November, the SC released a set of guidelines to **facilitate unit trust management companies (UTMC) to establish online transactions of unit trusts.**