X

Recent Developments and Future Direction

A. Recent Major Developments

1. Introduction of Exchange Traded Bonds and *Sukuk*

Effective January 2013, the Government of Malaysia introduced the ETBS concept as part of its drive to develop key economic areas of the country, including the financial market. For reference, a descriptive article from the World Exchanges website is included in this guide as Box 10.1.

Box 10.1: Bursa Malaysia Securities Introduces Rule to Facilitate Exchange-Traded Bonds and *Sukuk* (26 September 2012)

Bursa Malaysia Securities (BMS) today introduced the rules to facilitate Exchange-Traded Bonds and Sukuk (ETBS) to be listed, and traded on Bursa Securities. This marks the first step toward providing wider access for this asset class to BMS investors.

In the past, bonds have been primarily accessible to institutional and high net worth individuals. With the introduction of these rules, issuers now can list bonds or *sukuk* on the Bursa Securities market, and thus tap into the liquidity provided by retail investors.

Dato' Tajuddin Atan, Chief Executive Officer of BMS, expressed the significance of the initiative introduced by BMS that will promote greater price transparency and disclosure of these instruments to investors especially retail investors: "The introduction of [ETBS] on [BMS] complements our goal to offer a diverse range of tradable products on the Exchange. We are creating an environment that provides something for every type of investor. In this case, bonds and *sukuk* from a wider issuer base will be listed and traded on our Exchange and these complement the diverse selection of stocks, exchange-traded funds, and [real estate investment trusts] already listed on BMS as well as our complete range of derivatives and futures products."

ETBS, a project under the National Key Economic Areas, is aimed at offering greater choices for investors who are seeking products that yield stable returns with capital protection. Aside from enhancing the diversity of products offered to investors, this initiative is also expected to attract a new segment of investors into the market and provide issuers with greater flexibility in their fundraising exercises. This initiative is also a major step toward broadening and deepening the bond and *sukuk* markets, with the advantage of converging a whole spectrum of bond and *sukuk* market players.

The relevant rule changes to the Listing Requirements, [BMS] Rules, and [BMD] Rules have been made available for reference at the Exchange's website, www.bursamalaysia.com. BMS is working with issuers for potential listing and trading and will inform the market accordingly.

Source: Adapted by ADB Consultants for SF1 from Mondo Visione. Worldwide Exchange Intelligence. http://www.mondovisione.com/media-and-resources/news/bursa-malaysia-introduces-rule-to-facilitate-exchange-traded-bonds-and-sukuks/

2. ASEAN Disclosure Standards Scheme

Effective 1 April 2013, the securities market regulators in Malaysia, Singapore, and Thailand implemented the ASEAN Disclosure Standards Scheme (the Scheme) for multijurisdictional offerings to retail investors or the general public of equity and plain debt securities in ASEAN.

The Scheme aims to facilitate fundraising activities as well as to enhance investment opportunities within ASEAN capital markets. Issuers offering equity and plain debt securities in multiple jurisdictions within ASEAN will only need to comply with one single set of disclosure standards for prospectuses, known as the ASEAN Disclosure Standards, bringing about greater efficiency and cost savings to issuers. The Scheme is benchmarked against IOSCO disclosure standards on cross-border offerings. In addition, the Scheme fully adopts IFRS and the International Standards on Auditing.

The Scheme operates on an opt-in basis and ASEAN members will adopt the Scheme as and when they are ready to do so. Malaysia is among the first ASEAN jurisdictions to implement the Scheme.

3. BPAM Pricing Unrated Debt Securities and *Sukuk*

On 28 August 2014, the SC announced changes regarding the transferability and tradability of unrated bonds and *sukuk*. The provisions have subsequently been included in the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

Following the tradability of unrated bonds and *sukuk*, BPAM responded to strong market demand to expand its pricing services to cover unrated bonds and *sukuk* effective 2 January 2015. At present, there are about 500 unrated bonds and *sukuk* with a total outstanding of approximately MYR50 billion.[62]

4. BPAM releases 2015 BPAM Almanac on Bonds and Sukuk

In February 2016, BPAM published the third edition of its annual *Malaysia Bond and Sukuk Almanac* for 2015, on the back of the success of the original almanac in 2013 and its follow-up in 2014.

This latest edition contains information on 326 issuers and their active unrated bonds, *sukuk,* and short-term paper outstanding as of the end of 2015. This includes 646 additional securities valued at MYR59.8 billion for a total market size of 2,659 active securities and MYR1,119.4 billion as of 31 December 2015.

5. Introduction of the Lodge and Launch Framework

Effective 15 June 2015, the SC introduced a new regulatory framework with a particular focus on the professional bond market. The Lodge and Launch Framework will allow issuers to issue bonds, notes, and *sukuk* aimed at Sophisticated Investors once they have lodged the required documents and information with the SC. In consequence, prior approval from the SC is not required provided that all documentation and disclosure requirements have been observed for such bonds, notes, and *sukuk*. The lodgement of documents and information can be conducted via the SC's dedicated online system.

[62] Text adapted from information on BPAM website. http://www.bpam.com.my (accessed May 2015).

This new regime significantly streamlines the issuance process for professional bonds, notes, and *sukuk* in the Malaysian market, doing away with approval and improving time to market, and is expected to stimulate such issuance and attract additional attention from foreign issuers intending to tap the Malaysian market.

The features and requirements of the new Lodge and Launch Framework are reviewed in detail in Chapter II.

B. Future Direction

Malaysia is participating in a number of regional initiatives that are expected to have a beneficial impact on the domestic bond market and the regional bond market at large.

1. ACMF Facilitates Cross-Border Fundraising and Investment

The SC signed a memorandum of understanding with the Monetary Authority of Singapore; Singapore Exchange; and Securities and Exchange Commission, Thailand to establish a streamlined review framework for the ASEAN Common Prospectus. The framework, which is an initiative under the ACMF Implementation Plan endorsed by the ASEAN Finance Ministers, will facilitate cross-border offerings of equity securities and plain debt securities in ASEAN.[63]

This initiative aimed at securities, whether they are being offered to retail investors or the general public, is expected to stimulate cross-border investment into the debt securities of the participating markets since investors will find the documentation and disclosure information increasingly familiar.

2. ASEAN+3 Multi-Currency Bond Issuance Framework

The introduction of AMBIF in regional markets in the course of 2015 signals additional opportunity for bond and note issuance activities in the Malaysian market. Potential issuers have identified Malaysia as one of the markets of particular interest, largely due to the increased focus on decentralized funding for the support of domestic business operations by ASEAN+3 based corporates.

Aimed particularly at the issuance of bond, note, and *sukuk* issuances to Sophisticated (professional) Investors in Malaysia, AMBIF encourages domestic and regional issuers to take advantage of streamlined issuance approval processes not only in Malaysia, but also other regional markets. For additional information on AMBIF, please refer to Chapter IX.5.

The key advantage of AMBIF lies in the ability of regional issuers to tap multiple markets, including Malaysia, using the same or similar approval processes. This additional issuance avenue is seen as offering an alternative for corporate issuers to issue bonds, notes, and *sukuk* across markets instead of (or in addition to) relying on other forms of funding.

---

[63] Adapted by ADB Consultants for SF1 from Monetary Authority of Singapore. 2015. *Facilitating Cross-Border Capital Raising in ASEAN*. 3 May. http://www.mas.gov.sg/News-and-Publications/Media-Releases/2015/Facilitating-Cross-Border-Capital-Raising-in-ASEAN.aspx

3. Announcement on Changes to Credit Rating Regime

In his speech to mark Invest Malaysia 2014 on 9 June 2014, the Prime Minister announced a number of measures to liberalize the domestic credit rating regime, including the shareholding requirements of credit rating agencies operating in Malaysia. The following is an excerpt from the Prime Minister's speech that offers background information and details planned changes:[64]

> We seek to broaden the risk spectrum for corporate bonds. Market-based financing avenues must be accessible to smaller, more innovative ventures—the enterprises that can grow into the corporate titans of the future.
>
> For such businesses to tap into the capital market, there must be a critical mass of investors willing and able to invest in this asset class. Secondary market liquidity and credit risk assessment capacity are vital for building investor risk appetite. Although it is heartening to see our institutional investors expanding into a much broader range of asset classes, we want even greater participation.
>
> So to build that capacity—and to further promote investment in a broader spectrum of assets—I am pleased to announce the following liberalization measures:
>
> First, the mandatory requirement for credit ratings will be removed, effective 1st January 2017. This will broaden the corporate bond market, and enable investors to further diversify their portfolios.
>
> A gradual approach is being adopted to provide industry players sufficient time to further refine mechanisms necessary to operate under the new regime. From 1st January 2015, flexibilities will be accorded with regards to credit ratings and the tradability of unrated bonds and *sukuk*.
>
> Secondly, the equity shareholding for credit rating agencies will be liberalized, and international credit rating agencies with full foreign ownership will be allowed in the Malaysian market from 1st January 2017.
>
> The entry of international agencies will further enhance the quality and standard of rating services, introduce a more competitive fee structure, and widen both expertise and the range of credit rating services on offer. Ultimately, this liberalization will enable the Malaysian bond market to become a more cost-effective and attractive long-term financing platform.

C. Excerpt from the Capital Market Masterplan II, 2011–2020

The CMP2, which details plans for the development of the Malaysian capital market from 2011 until 2020, continues to shape and improve the market segments, including the bond market and the Islamic capital market. Since the efforts are set to continue for several more years, some relevant commentary is provided in this section.

[64] The full text of the speech is available from the website of the Office of the Prime Minister of Malaysia at http://www.pmo.gov.my/home.php?menu=speech&page=1676&news_id=724&speech_cat=2

1. Growth to 2020

The Malaysian capital market has significant growth prospects. The SC estimates the size of Malaysia's capital market—comprising stock market capitalization and debt securities—will more than double from MYR2.0 trillion in 2010 to MYR4.5 trillion by 2020.

The baseline forecast is predicated on annual real gross domestic product (GDP) growth of 6.5% and historical market benchmarks, and is subject to prevailing economic and market conditions. Overall, the long-range forecasts provide a reasonable reflection of baseline growth prospects based on extrapolation of historical trends. Further analysis indicates there are strong upside prospects for the Malaysian capital market. The structural reforms and high-impact investment projects under the new economic model and economic transformation program can accelerate economic growth momentum with a significant impact on the upside for the long-term growth of the capital market. Based on benchmarks for regional financial centers, it is estimated that internationalization of the stock market can increase the potential size of the Malaysian capital market by another 30% to MYR5.8 trillion in 2020. Higher levels of internationalization will also have positive growth effects on the bond market and the Islamic capital market, which is projected to increase from MYR1.1 trillion in 2010 to MYR2.9 trillion in 2020. In addition, the investment management industry is expected to see assets under management rise from MYR377.4 billion in 2010 to MYR1.6 trillion in 2020. The most important effect of achieving critical mass is the facilitation of volume strategies and higher efficiency from increased economies of scale.

Based on historical trends, the growth of the investment management industry is likely to outpace the growth of equity assets between 2011 and 2020. This is a feature typical of an economy in transition from middle-income to developed status. Projections indicate that the penetration rate for unit trusts is likely to almost double from 18% in 2010 to 34% in 2020, which is closer to levels usually seen in developed markets. The annual notional value of derivatives trading of MYR512.1 billion in 2010 is currently largely based on crude palm oil futures contracts. There is a substantial upside from further expansion of derivative products and this will deepen liquidity across market segments through positive spillover effects from higher levels of intermarket trading, hedging, and arbitrage.

With the core intermediation industries reasonably developed, the developmental focus will shift toward nurturing future growth segments, particularly in ancillary layers supporting intermediation activities. The development of more competitive niches will foster higher productivity and value-added activities with the supporting clusters providing positive growth feedback effects. The CMP2 offers a broad set of strategies that are aimed at addressing key structural challenges and critical linkages to create an environment conducive to private sector intermediation and expanding the growth boundaries of the capital market. These will be complemented with strategies to ensure effective governance arrangements to sustain confidence in the integrity of Malaysia's capital market and to maintain strong regulatory oversight to safeguard the interests of investors.

2. Wider Access to the Bond Market

The development of the bond market has provided critical long-term financing to many large-sized and catalytic economic projects. This has resulted in Malaysia having one of the best infrastructures in the region, ranging from international airports and highways to power plants and telecommunications. The bond market has also been a source of financing support for banks and corporations, and provided liquidity to balance sheets through the securitization of mortgages and other receivables.

In tandem with economic transformation plans, there is a need to broaden the capability and capacity of the bond market to supply financing to a wider base of industries and projects, particularly in supporting the structural shift toward services and knowledge-based industries. The ability to widen access to bond financing for more sophisticated ventures is critically dependent on broadening the investor base and increasing the appetite for a wider array of debt products and credit risks. Widening the credit spectrum therefore requires strengthening investor confidence, increasing the participation of the public and private investment management industry, expanding product range, and enhancing market infrastructure. Toward this end, market standards and practices will be enhanced through improving documentation and disclosure standards, as well as clarifying post-issuance disclosure obligations and requirements.

The CRA framework will be further enhanced to converge with new international standards and best practices covering key areas such as the transparency of rating criteria and policies, rating reviews, and the governance structure of CRAs. The default process for bonds will also be reviewed to provide greater clarity and certainty to investors. In tandem with this, efforts will be made to promote a more active market for the pricing of distressed issues. The participation of the public and private sector segments of the investment management industry in fixed-income investments needs to be further strengthened. This will require building their fixed-income investment capabilities to enable participation in a broader spectrum of structures and credits. There is also a need to increase transparency and liquidity in the secondary market to match the growth in primary issuance. This will be achieved through strengthening the environment for electronic trading and infrastructure in the areas of bond lending, market-making, trading, clearing, settlement, and custodian services. Efforts will also be made to promote greater retail participation in the bond market through developing a framework to facilitate the offering of corporate bonds to retail investors that covers the eligible issuer base, mode of offering, format of offering documents, price transparency, investor protection, and education activities. In addition, distribution channels will be widened to enable greater retail investment.

The availability of a broad range of interest-rate-sensitive products is required for the application of sophisticated fixed-income investment strategies and to promote active trading and arbitrage in the bond market. In conjunction with increasing institutional investment in fixed-income instruments, the product range will be broadened to include fixed-income indexes and inflation-linked products.

Additional mechanisms will be considered to widen participation and deepen liquidity in the bond market. The establishment of Danajamin Nasional provides a means for less-established companies to gain access to the bond market and to establish their track record for creditworthiness, while a review will be undertaken to assess the viability of establishing facilities to mitigate illiquidity risks of bond funds.

3. Growth Prospects for the Bond Market through 2020

The Malaysian bond market is relatively well developed with outstanding bond issuances equivalent to about 97% of GDP. Market depth is reflected by an average weighted bond tenure of 16 years and an average issuance size of MYR670 million, while market width is reflected by the diversified range of conventional and Islamic instruments.

The bond market is expected to sustain reasonable growth during the decade under review. The economic transformation plans have already identified several major infrastructure projects that will underpin strong domestic issuance. Demand growth will be driven by the increasing participation of the investment management industry in fixed-income investments and through growing international participation in Malaysia's bond and *sukuk* market. Further improvements in the legal, regulatory, and institutional framework will support the continued deepening and broadening of the bond market. The growing pool of fixed-income professionals will provide the necessary expertise to originate debt and *sukuk* structures to match the financing requirements for infrastructure projects and the investment needs of both the private and public sectors.

4. Expansion of International Intermediation Capabilities

Malaysia has also strengthened the positioning of its bond market with the removal of the withholding tax coupled with a facilitative approval framework. These developments have resulted in Malaysia being recognized as an important hub for cross-border investments and issuances in the region. Since 2004, foreign issuers have issued MYR18.6 billion worth of bonds and *sukuk*. Foreign investments in LCY bonds amounted to MYR208 billion at the end of May 2015, up from MYR121 billion at the end of December 2010. Further improvements will be made to enhance the connectivity of the clearing and settlement infrastructure, while friction costs will be reduced to attract more active international investor trading in the secondary equity, bond, and derivative markets.

Domestic intermediaries have already been preparing to operate in a more open and competitive environment. They have strengthened their presence in the regional markets and advised on international transactions. SC surveys dating back to 2009 show that intermediaries have embarked on the distribution of international products to domestic clients.

The SC will continue to pursue cross-border regulatory arrangements to facilitate the expansion of domestic intermediaries and distribution of products in other markets. In addition, intermediary standards and capabilities will be strengthened across a broad range of industry segments to facilitate their participation in international markets.

Apart from its core industry segments, Malaysia has natural strengths in many parts of the value chain for capital market transactions. Internationalization will be an important catalyst to unlock hub opportunities in a broad range of middle and back office functions covering advisory services, research, risk management, compliance, settlement, custodian services, trustee services, and other services. In this regard, Malaysia is well positioned to attract international participants as it offers an attractive choice of locations in Kuala Lumpur, Labuan, and Iskandar, with each possessing its own advantages.

These efforts need to be complemented with strategies to attract talent with knowledge of international practices related to the capital market, law, accounting, tax, and Shariah principles to build an ecosystem that provides cost-effective support for the structuring and processing of international capital market transactions.