

Monetary and Financial Developments



Overview

Monetary policy and financial conditions continue to support growth...

Monetary policy in 2007 continues to emphasise economic growth with price stability. With inflation continuing to ease amidst steady economic growth, the overnight policy rate (OPR) was left unchanged since April 2006. Monetary conditions were supportive of economic activity, especially interest rates which remained stable. Money supply expanded, mainly due to the larger increase in net external operations and steady private sector financing. The ringgit continued to strengthen against the US dollar, supported by strong economic fundamentals and higher portfolio inflows, reinforced by market-friendly measures.

On the financial landscape, investment banks have started operations. The Islamic financial sector continues to grow strongly in terms of assets, financing and *sukuk* issuance. The Malaysia International Islamic Financial Centre (MIFC) initiative, launched in August 2006 and supported by attractive tax incentives is set to spur further growth of Islamic finance and better position Malaysia as an Islamic financial hub. The insurance industry continued to expand, driven by the growth of investment and savings

products. The role of several development financial institutions (DFIs) has been enhanced to promote greater access to financing of targeted sectors, with two DFIs mandated in 2007 to provide microfinance.

Funds raised in the capital market grew strongly in the first half of 2007, due to the issuance of more Malaysian Government Securities to fund development projects and private debt securities (PDS) to finance new activities and mergers and acquisitions (M&As). The equity market recorded strong performance with higher turnover and the composite index charting new highs. The derivatives market traded more actively, with investor interest concentrated on the Kuala Lumpur Composite Index (KLCI) and crude palm oil (CPO) futures. Meanwhile, further measures were introduced in the capital market aimed at strengthening the market in terms of enhancing investor protection and efficiency and promoting derivatives and Islamic finance.

Monetary Policy

Monetary policy remains supportive of growth...

Monetary policy in 2007 continues to support sustainable economic growth with price stability. Despite the moderation in world growth, the outlook for the Malaysian economy remains

positive, driven by strong private consumption and growing private investment. Inflationary pressure has abated, with the Consumer Price Index easing to average 2.0% during January-July 2007 (2006: 3.6%), from a high of 4.8% in March 2006 following the adjustment of retail petrol prices. In the light of stable inflation and steady growth pace, the OPR was left unchanged at 3.50%, since its last increase in April 2006, reflecting an accommodative monetary stance to support economic activity.

Monetary Developments

Money supply and private sector financing further expanded...

Money supply continued to expand during the first six months of 2007, with M1 and M3 increasing by 16.2% and 12.6% respectively at end-June 2007 (end-2006: 13.7%; 13.0%). M1 or narrow money, an indicator of transaction balances, grew at a faster pace on account of higher placements of demand deposits by business enterprises. The expansion in M3 or broad money was largely due to higher increase in net foreign assets, reflecting continued inflows from trade and foreign direct and portfolio investments, as shown in *Table 5.1*.

TABLE 5.1

Determinants of M3 January - June

	Change (RM million)	
	2006	2007
M3	27,702.8	28,309.2
Net claims on Government	-9,250.3	-19,737.8
Claims on private sector	20,323.5	20,765.6
Loans	19,507.3	20,938.2
Securities	816.2	-172.6
Net external operations	24,247.9	76,020.1
Bank Negara Malaysia	24,010.5	49,354.2
Banking system	237.4	26,665.9
Other influences	-7,618.3	-48,738.6

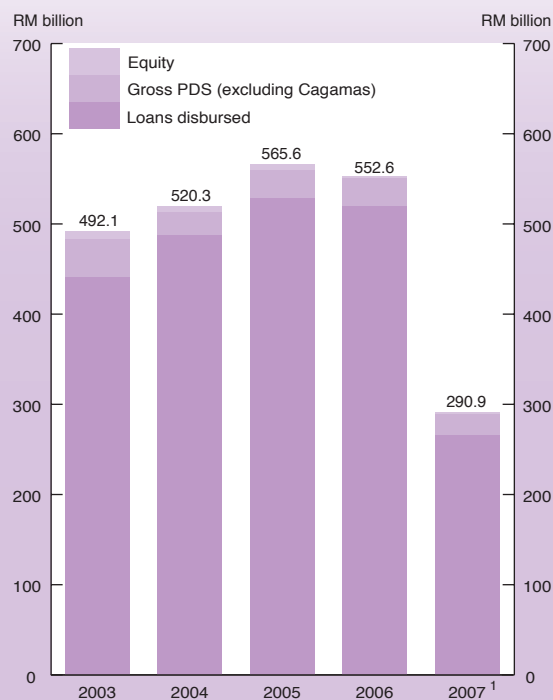
Source: Bank Negara Malaysia.

Interest rates remained stable in an environment of ample liquidity in the banking system during the first six months of 2007. With the OPR unchanged at 3.50%, the average base lending rate of commercial banks has remained at 6.72% since May 2006. The average lending rate slid to 6.49% in June 2007 (end-2006: 6.57%) due to the flush liquidity and intense competition among banking institutions. With inflation continuing to ease to 1.4% in June 2007, there was higher real return on fixed deposit (FD) rates for all maturities. The FD rates on 1-month to 12-month maturities ranged between 3.09% and 3.71% at end-June 2007 (end-2006: 3.11%; 3.73%).

Gross private sector financing through the banking system and capital market grew by 3.9% to RM290.9 billion (January-June 2006: 2.9%; RM279.9 billion), as shown in *Chart 5.1*. Loan disbursements of the banking system

CHART 5.1

Gross Private Sector Financing Through Banking System Loans and Capital Market



¹ January-June 2007.

Source: Bank Negara Malaysia.

increased marginally by 0.6% to RM266 billion (January-June 2006: 3.2%; RM264.4 billion). This was offset by the larger increase in PDS raised, which expanded by 60.4% to RM23.6 billion (January-June 2006: 29.4%; RM14.7 billion), while equity issued rose by 70.8% to RM1,307.5 million (January-June 2006: -82.7%; RM765.6 million).

The forward-looking indicators of the banking system, namely **loan applications and loan approvals** grew at a faster pace of 38.8% and 46.5% respectively (January-June 2006: -3.0%; 1.6%), driven by business loans, as shown in *Table 5.2*. Loan approvals to the business sector rose by 83.3% to RM81.4 billion (January-June

2006: 12.5%; RM44.4 billion). Within the business sector, loan approvals to small and medium enterprises (SMEs) expanded strongly by 45.3%. Loan approvals to the household sector turned positive in 2007, with growth of 11.8% during the first six months of 2007 (January-June 2006: -6.8%). Household borrowing increased in line with positive consumer sentiment, following improved income, a buoyant stock market, higher commodity prices and stable labour market conditions.

Total loans outstanding of the banking system grew by 6.0% to RM614 billion at end-June 2007 (end-2006: 6.3%; RM593 billion), as shown in *Chart 5.2*. Loans outstanding to the business sector, inclusive of SMEs increased by 6.0% to RM245.2 billion (end-2006: 4.2%; RM231.3 billion). Loans to SMEs accounted for 43.5% of total outstanding loans to the business sector and 17.4% of total outstanding loans as at end-June 2007. Business loans were mainly to the

TABLE 5.2

**Banking System: Loan Indicators
January - June**

Indicator	RM billion		Annual growth (%)	
	2006	2007	2006	2007
Total				
Loan applications	144.8	201.0	-3.0	38.8
Loan approvals	91.7	134.2	1.6	46.5
Loan disbursements	264.4	266.0	3.2	0.6
Loans outstanding	593.0 ¹	614.0	6.3 ¹	6.0
of which:				
Business sector				
Loan applications	77.0	114.1	1.4	48.2
Loan approvals	44.4	81.4	12.5	83.3
Loan disbursements	188.0	186.3	3.0	-0.9
Loans outstanding	231.3 ¹	245.2	4.2 ¹	6.0
SMEs²				
Loan applications	31.8	43.5	n.a	36.5
Loan approvals	17.1	24.8	n.a	45.3
Loan disbursements	66.1	67.5	n.a	2.0
Loans outstanding	102.5 ¹	106.6	n.a	3.9
Households				
Loan applications	67.8	86.9	-7.7	28.1
Loan approvals	47.2	52.8	-6.8	11.8
Loan disbursements	76.5	79.7	3.7	4.2
Loans outstanding	334.8 ¹	344.5	9.4 ¹	7.2

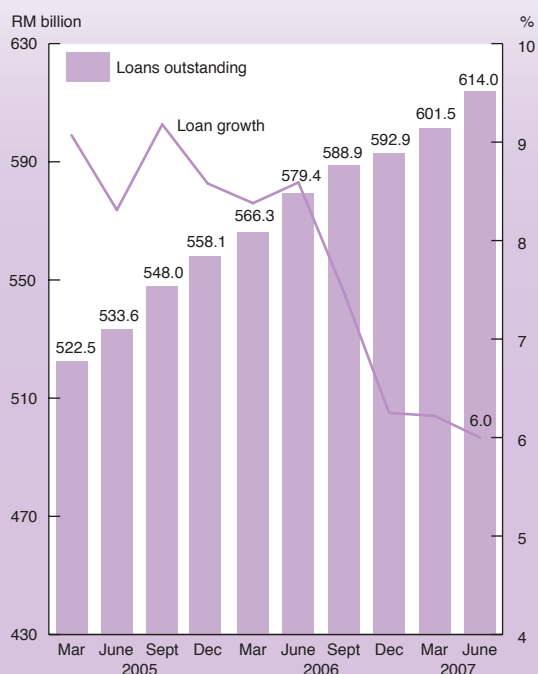
¹ End-2006.

² For 2006, annual growth data is not applicable, arising from the adoption of the Standard SME Definitions, as approved by the National SME Development Council, resulting in some reclassification between SMEs and large corporations.

Source: Bank Negara Malaysia.

CHART 5.2

**Banking System: Loans Outstanding¹
and Growth**



¹ End period.

Source: Bank Negara Malaysia.

TABLE 5.3

Banking System: Direction of Lending

	RM million		Share (%)
	End-2006	End-June 2007	End-June 2007
Primary agriculture	13,224.6	13,690.6	2.2
Mining and quarrying	1,380.8	1,531.9	0.2
Manufacturing (including agro-based)	66,125.0	70,825.3	11.5
Electricity, gas and water supply	4,659.6	3,439.3	0.6
Wholesale and retail trade, hotels and restaurants	52,690.8	52,563.3	8.6
Construction	31,410.9	31,597.8	5.1
Real estate	16,907.1	17,539.1	2.9
Transport, storage and communications	11,385.5	13,931.0	2.3
Finance, insurance and business activities	34,183.6	38,593.5	6.3
Education, health and others	6,157.3	6,758.7	1.1
Household sector	334,812.5	344,521.2	56.1
Other sectors	20,024.3	19,011.7	3.1
Total	592,962.0	614,003.4	100.0

Source: Bank Negara Malaysia.

manufacturing (RM70.8 billion; 11.5% of total outstanding loans), wholesale and retail trade, hotels and restaurants (RM52.6 billion; 8.6%) and finance, insurance and business services (RM38.6 billion; 6.3%) sectors, as shown in *Table 5.3*. Loans outstanding to households expanded by 7.2% to RM344.5 billion (end-2006: 9.4%; RM334.8 billion) and accounted for 56.1% of total loans outstanding. Household loans continue to be mainly for the purchase of residential properties (RM167.6 billion; 27.3%) and passenger cars (RM99.1 billion; 16.1%).

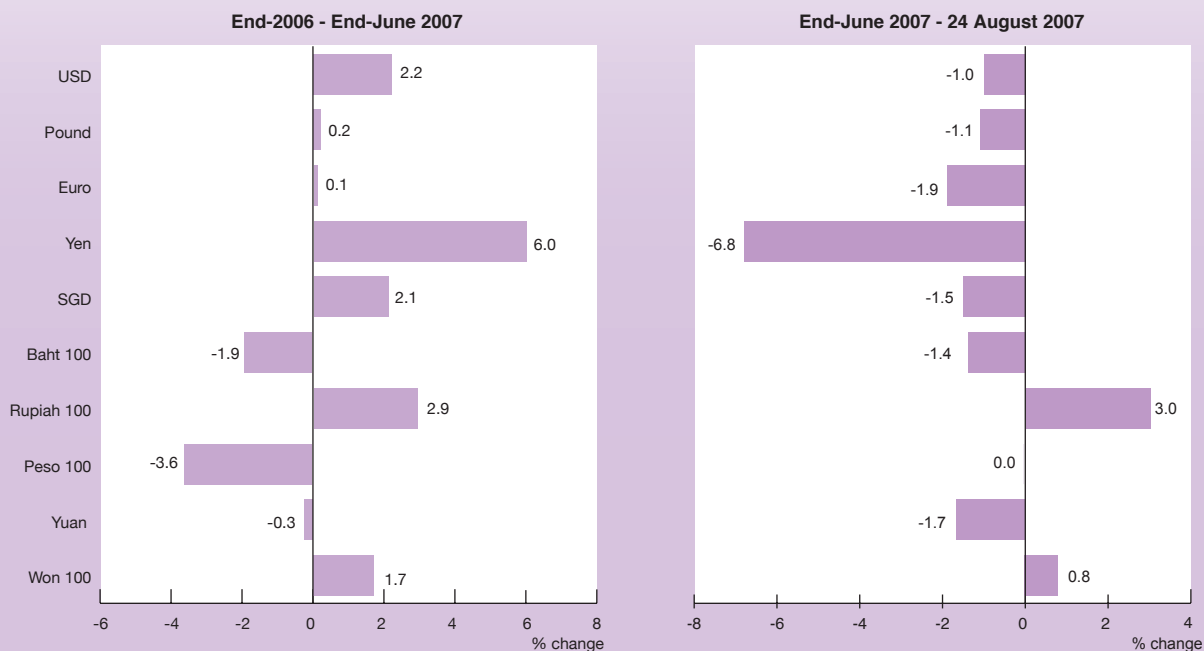
The **ringgit** appreciated against the major currencies in the first half of 2007, supported by continued trade and investment inflows, as shown in *Chart 5.3*. The firmer ringgit was also bolstered by strong economic fundamentals, expectations of higher corporate earnings and the announcement of several market-friendly measures. These include further liberalisation of foreign exchange administration rules, waiver of the real property gains tax (RPGT) and tax

incentives for the Iskandar Development Region (IDR).

The ringgit strengthened by 2.2% against the US dollar, as the greenback weakened due to slower growth in the US economy and concerns over the impact of the sub-prime mortgage market on the wider economy. The ringgit appreciated by 6.0% against the Japanese yen, as the yen weakened on market expectation that the policy interest rate would remain unchanged. Against regional currencies, the performance of the ringgit was mixed. The ringgit rose in the range of 1.7%-2.9% against the Korean won, Singapore dollar and Indonesian rupiah but depreciated between 0.3%-3.6% against the Chinese yuan, Thai baht and Philippine peso. During the period end-June 2007 to 24 August 2007, the ringgit depreciated against the major and regional currencies in the range of 1.0%-6.8%. The ringgit softened by 1.0% against the US dollar following the decline in the domestic stock market along with other major and regional markets in the wake of the US sub-prime mortgage crisis.

CHART 5.3

Performance of Ringgit Against Selected Currencies



Source: Bank Negara Malaysia.

The **foreign exchange administration rules** were further liberalised effective 1 April 2007, following earlier relaxations in 2004 and 2005. The liberalisation was aimed at enhancing Malaysia's competitiveness through reducing the cost of doing business, facilitating risk management and providing increased flexibility in undertaking foreign currency transactions. Among others, the measures include abolishing the limit imposed on onshore banks for foreign currency accounts maintained by residents; granting further flexibility for non-resident stockbroking companies to obtain ringgit overdraft facility from onshore banks; abolishing the limit on the number of property loans obtained by non-residents; and increasing the limit for resident individuals, corporations and institutional investors to invest in foreign currency assets.

Developments in the Financial Sector

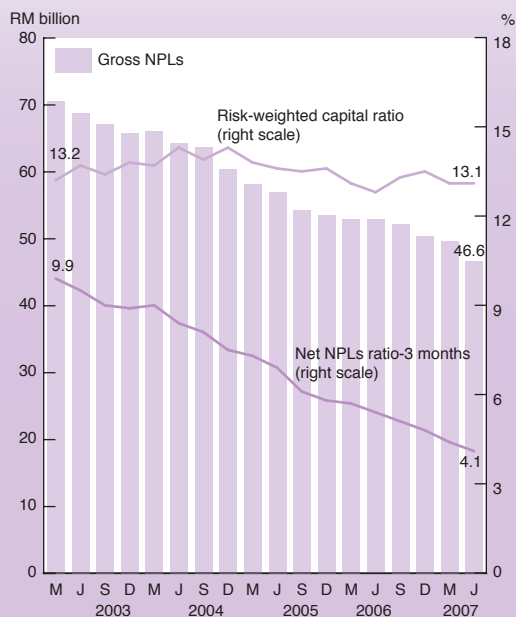
Health of the Banking System

Banking system remains strong...

The **banking system** remained robust in the first six months of 2007, supported by strong capitalisation, higher profitability and improved asset quality, in line with the favourable economic conditions. The risk-weighted capital ratio (RWCR) of 13.1% as at end-June 2007 (end-2006: 13.5%) remained comfortably higher than the Basel minimum requirement of 8.0%, as shown in *Chart 5.4*. Pre-tax profit of the banking system rose by 69.2% to RM8.3 billion in the first six months of 2007 (January-June 2006: -18.2%;

CHART 5.4

**Banking System:
Gross Non-Performing Loans (NPLs)¹,
Net NPLs Ratio¹ and Risk-Weighted
Capital Ratio¹**



¹ End period.

Source: Bank Negara Malaysia.

RM4.9 billion), mainly due to higher income from interest related and fee-based activity and gains from trading and investment. Asset quality of the banking system continued to improve, with the net non-performing loans (NPLs) ratio based on 3-months classification declining to 4.1% as at end-June 2007 (end-2006: 4.6%), the lowest level since the financial crisis. The improvement was underpinned by higher recoveries, reclassification of NPLs to performing status, continued write-offs and sale of NPLs.

Update on Investment Banks

Investment banks begin operations...

As at end-June 2007, there were 12 **investment banks** in operation, comprising nine banking groups from the merger of merchant banks, stockbroking companies and discount houses, and three former universal brokers. The remaining

two merchant banks and two universal brokers are in the process of meeting the necessary prerequisites to become investment banks. With the establishment of investment banks, discount houses are no longer in operation.

The creation of investment banks reduces duplication of resources through rationalisation of common functions, enhances the range of products and services and strengthens competitive advantage. This will enable investment banks to be more effective, efficient and resilient in undertaking capital market activities both domestically and internationally.

Investment banks are co-regulated by the Securities Commission (SC) and Bank Negara Malaysia (BNM). The SC undertakes the regulation of business and market conduct to ensure market integrity and investor protection, while BNM will focus on prudential regulation to ensure financial stability. BNM and SC are currently finalising a Memorandum of Understanding (MoU) to coordinate working arrangements in the regulation and supervision of investment banks.

Progress of the Financial Sector Masterplan

Plan implementation as scheduled...

The **Financial Sector Masterplan (FSMP)** launched in March 2001 is a blueprint to evolve the financial system into one that is dynamic, competitive and resilient. The progress has been satisfactory with two additional recommendations on the issuance of prudential risk management standards and the removal of investment restrictions completed during the first half of 2007. As at 30 June 2007, a total of 53 recommendations have been fully implemented, while another 30 recommendations are being implemented. This represents 70.0% of the total 119 FSMP recommendations. Of significance, the capacity building measures and infrastructure that have been put in place during the first and

second phases of the FSMP have strengthened the position of financial institutions to compete in a more liberalised environment.

Among the major developments since the introduction of the FSMP are the rationalisation of the banking and finance company business into one entity, implementation of the investment banking framework, introduction of the new interest rate framework and the establishment of a comprehensive deposit insurance system in Malaysia. Another significant development is the MIFC initiative that aims to position Malaysia as a centre in the origination and trading of Islamic financial instruments. The MIFC initiative will also project Malaysia as a centre of excellence in education, training, consultancy and research in Islamic finance.

The FSMP has also introduced various consumer protection and education initiatives to enhance the level of financial literacy and awareness among consumers while ensuring sufficient redress mechanisms are in place, such as the establishment of the Credit Counselling and Debt Management Agency (CCDMA) and the Financial Mediation Bureau (FMB). The CCDMA was set up in April 2006 to provide advice, counselling and assistance to consumers on credit, financial education and debt restructuring. As of May 2007, a total of 29,533 persons have sought the services of CCDMA. The FMB, established in 2005, is an integrated agency that helps consumers to resolve disputes against banking institutions, insurance companies, DFIs and non-bank issuers of credit and charge cards.

Developments in Islamic Finance

Further initiatives to strengthen Islamic finance...

The **Islamic financial sector** continues to grow as an integral component of the Malaysian

financial system. As of July 2007, there were 11 Islamic banks comprising six Islamic subsidiaries (previously Islamic banking windows), two domestic Islamic banks and three new foreign banks. The foreign Islamic banks have rapidly expanded their branch network to a total of 15 branches, since the commencement of operations of the first foreign Islamic bank in August 2005.

Policy initiatives for the Islamic banking sector continue to emphasise further strengthening of corporate governance and risk management. Additional requirements have been introduced, such as the disclosure on *syariah* matters in the annual report, expanding the role of internal auditor to include *syariah* audit and additional roles of the board of directors in the protection of depositors, particularly investment account holders. The Capital Adequacy Framework for Islamic Banks, developed by the Islamic Financial Services Board (IFSB), will take effect from 1 January 2008. In December 2006, IFSB issued the Guiding Principles on Corporate Governance for Institutions Offering Only Islamic Financial Services. The Guiding Principles will facilitate the institutions in identifying areas requiring appropriate governance structures and processes and recommend best practices in addressing these issues.

Further enhancement was also made to the corporate governance and prudential standards of *takaful* operators. In March 2007, BNM issued the Guidelines on the Role of the Appointed Actuary. The guidelines set out the qualifying criteria for the appointment of actuaries as well as their general and specific duties and responsibilities. It is envisaged that enhancing the role of actuaries will help improve the quality of actuarial investigations into the financial conditions of family *takaful* funds. In April 2007, BNM issued the Circular on Valuation of Liabilities for Mortgage Reducing Term *Takaful* (MRTT) setting out the minimum valuation basis to be conducted by *takaful* operators in evaluating their liabilities on MRTT products.

Efforts were also intensified to enlarge the pool of talent in the field of *syariah* by providing scholarships and research grants funded by BNM's Endowment Fund for *Syariah* Scholars in Islamic Finance. The International Centre for Education in Islamic Finance (INCEIF), set up in March 2006 to develop human capital and R&D in Islamic finance, received university status on 14 December 2006. INCEIF has forged strategic alliances with renowned local and international institutions of higher learning, and currently has more than 700 students.

Update on Malaysia International Islamic Financial Centre Initiative

MIFC attains good progress...

Significant progress has been achieved in the **MIFC initiative** launched in August 2006 and supported by attractive tax incentives under Budget 2007. Efforts have been directed at enhancing institutional capacity, forging strategic alliances and embarking on promotional initiatives. There has been positive response from local and foreign financial institutions to participate in the MIFC initiative, particularly in the establishment of international Islamic banks (IIBs), international *takaful* operators (ITOs) and international currency business units (ICBUs). As of July 2007, eight financial institutions comprising three *takaful* operators and five Islamic banks have been granted approval to set up ICBUs. In addition, one application was received to set up an IIB.

Further efforts were made to forge strategic partnerships with other global Islamic finance players. BNM signed MoUs with Qatar Financial Centre Regulatory Authority and Dubai Financial Services Authority on 27 March 2007. This collaborative partnership between East and West Asia provides the platform to mutually strengthen the inter-linkages among Islamic financial centres and reinforce the development of Islamic finance at the international frontier.

BNM also signed an MoU with Japan Bank for International Cooperation (JBIC) on 22 January 2007 for the development of Islamic finance, particularly in *sukuk* issuance. JBIC plans to issue ringgit-denominated *sukuk* soon in the Malaysian capital market, which will be the first by a Japanese government agency.

As part of initiatives to promote MIFC, BNM hosted the inaugural Global Islamic Finance Forum (GIFF) in Kuala Lumpur from 26 to 29 March 2007. With the theme "Fostering Linkages in Islamic Finance", GIFF attracted more than 1,500 participants from 50 countries, including 400 foreign participants. GIFF will be organised on an annual basis under the flagship of promoting MIFC.

Islamic Banking

Further expansion of Islamic banking...

The **Islamic banking (IB)** sector remained well capitalised, with the capital base increasing to RM14.7 billion and RWCR of 17.1% as at end-June 2007 (end-2006: 16.6%). Pre-tax profit grew by 32.9% to RM1 billion in the first six months of 2007, driven largely by growth in income from financing, trading and investment and higher recoveries on non-performing assets. The annualised return on assets and return on equity stood at 1.6% and 16.1% respectively, almost matching those of conventional banking. The quality of financing continued to improve with net non-performing financing (or net NPLs ratio under conventional banking) based on 3-months classification declining by 8.3% to RM3.2 billion to account for 4.1% of total financing.

During the first six months of 2007, total assets of the IB sector expanded by 8.0% to RM143.7 billion (end-2006: RM133 billion) and accounted for 12.1% of total banking system assets, as shown in *Table 5.4*. IB deposits increased by 8.4% to RM107.5 billion (end-2006: RM99.2 billion) to capture 12.8% market share. Financing

TABLE 5.4

Islamic Banking: Key Indicators

	RM million		Change (%)
	End-2006	End-June 2007	
Assets	133,003.9	143,697.6	8.0
Deposits	99,176.4	107,467.7	8.4
of which:			
Investment	64,136.8	71,133.9	10.9
Savings	11,096.0	12,029.6	8.4
Demand	20,525.2	19,491.9	-5.0
Others	3,418.4	4,812.2	40.8
Financing	78,518.3	81,532.1	3.8
of which:			
Primary agriculture	2,996.5	2,970.1	-0.9
Manufacturing (including agro-based)	8,333.5	9,229.6	10.8
Wholesale and retail trade, hotels and restaurants	3,885.3	3,864.6	-0.5
Finance, insurance and business activities	2,930.1	3,184.8	8.7
Household sector	50,339.6	51,737.5	2.8

Source: Bank Negara Malaysia.

grew by 3.8% to RM81.5 billion and accounted for 13.3% of total banking system loans. IB lending remained highly concentrated on the household sector with RM51.7 billion or 63.5% of total outstanding loans as at end-June 2007, mainly for the purchase of passenger cars and residential properties.

Insurance Industry

Growth driven by investment and savings products...

The **insurance industry** further expanded in tandem with the favourable economic performance. Combined premium income for the insurance industry increased by 9.8% to RM13 billion in the first half of 2007 (January-June 2006: 2.4%; RM11.8 billion), as shown in *Table 5.5*. Combined assets grew by 14.2% to RM116.3 billion in the

TABLE 5.5

Life and General Insurance Business

	End-2006	End-June 2007 ¹
Life insurance (RM million)		
New business:		
Number of policies ('000 units)	1,303.7	634.0
Sums insured	186,919.9	101,301.5
Total premiums	7,161.7	3,833.0
Business in force		
Number of policies ('000 units)	10,534.5	10,703.4
Sums insured	672,901.7	679,404.2
Annual premiums	13,325.8	13,718.9
Premium income	17,120.2	8,919.0
Benefit payments	7,311.1	4,325.9
General insurance (RM million)		
Premium income:		
Gross direct premiums	9,639.3	5,186.8
Net premiums	7,765.7	4,066.6
Reinsurance placed outside Malaysia	954.1	520.2
Retention ratio ² (%)	89.1	88.7
Number of insurance companies		
Direct:		
Life	8	8
General	26	26
Composite	8	8
Reinsurance:		
Life	1	1
General	4	5
Composite	1	1

¹ Preliminary data.² Net premiums to gross premiums and reinsurance accepted premiums less reinsurance within Malaysia.

Source: Bank Negara Malaysia.

TABLE 5.6

Assets of Life and General Insurance Funds
 (RM million)

	Life Insurance		General Insurance	
	End-2006	End-June 2007 ¹	End-2006	End-June 2007 ¹
Fixed assets	526.4	609.9	908.6	878.7
Loans	10,789.1	11,184.9	250.3	249.2
Investment	61,196.0	65,598.4	9,104.0	9,526.9
Government securities	15,985.9	16,421.1	3,132.5	3,207.0
Government guaranteed loans	0.0	0.0	10.0	10.0
Corporate and debt securities	45,210.1	49,177.3	5,961.5	6,309.8
Investment in properties	2,970.6	3,059.8	198.7	209.4
Cash and deposits	10,342.9	10,881.6	6,107.4	6,346.2
Other assets ²	3,825.1	5,071.7	2,253.9	2,657.9
Total	89,650.1	96,406.3	18,822.9	19,868.3

¹ Preliminary data.² Includes other investments and foreign assets.

Source: Bank Negara Malaysia.

first half of 2007 in line with the growth of new business, as shown in *Table 5.6*. Asset allocation remained concentrated on corporate and debt securities as well as Government securities, accounting for 64.6% of total assets.

The **life insurance sector** recorded strong growth, with the turnaround of new business premiums at 19.1% to RM3.8 billion (January-June 2006: -11.4%; RM3.2 billion), driven mainly by the increase in sales of investment and savings plans. Supported by favourable sentiment in the domestic financial markets, growth of these products accelerated to account for 90.5% of the increase in new business premiums. In terms of distribution channels, bancassurance tie-ups generated a higher share of 50.1% of new premiums in the first half of 2007 (January-June 2006: 44.5%), while the market share of agency business declined to 43.7% (January-June 2006: 49.4%). Market penetration of life insurance, as measured in terms of the total number of policies in force to total population, grew to 39.3% as at end-June 2007 (end-June 2006: 38.7%). This suggests huge potential to increase Malaysian

life insurance market penetration to the level of developed countries, which exceeds 80.0%.

In the **general insurance sector**, continued moderation in the sales of motor vehicles dampened growth in motor premium income. Gross motor premiums contracted by 1.9% to RM2.1 billion in the first half of 2007 (January-June 2006: 0.8%; RM2.2 billion). However, robust growth in the offshore oil-related sector boosted the expansion in marine, aviation and transit insurance premiums, enabling the industry to cushion the decline in motor business.

Takaful Industry

Takaful grew strongly...

The **takaful industry** grew strongly, with combined *takaful* contribution income increasing by 36.2% to RM1.2 billion, accounting for 8.1% of the total premiums of the insurance industry as at end-June 2007, as shown in *Table 5.7*. In the family *takaful* sector, new business contributions

TABLE 5.7

Family and General *Takaful* Business

	End-2006	End-June 2007
Assets¹ (RM million)	6,899.0	7,623.4
Fixed assets	9.9	11.0
Financing	58.2	48.3
Investment	5,989.1	6,680.4
Government securities	732.6	688.1
PDS and equities	3,191.2	3,467.5
Investment deposits	2,065.2	2,524.8
Cash and bank balances	192.8	152.7
Others	649.0	731.0
Family <i>takaful</i> business		
New business:		
Total contributions (RM million)	1,266.6	1,069.6
Sums participated (RM million)	33,627.3	24,031.1
Number of certificates	372,066	215,860
Business in force:		
Total contributions ² (RM million)	734.2	818.8
Sums participated (RM million)	118,053.5	126,896.5
Number of certificates	1,756,304	1,860,990
General <i>takaful</i> business		
Gross contributions (RM million)	713.7	455.3
Net claims paid (RM million)	158.1	100.9

¹ Assets of family *takaful*, general *takaful* and shareholders' funds.

² In force contributions reported is only for annual contributions.

Source: Bank Negara Malaysia.

expanded by 198.8% to RM1,069.6 million (January-June 2006: -8.6%; RM358 million). The growth was mainly attributed to mortgage *takaful* products in tandem with the expansion in bank lending to the mortgage sector. Market penetration, measured in terms of family *takaful*

certificates in force to the total population, increased to 6.8% as at end-June 2007 (end-2006: 6.6%). In the general *takaful* sector, motor business remained dominant, with a growth of 44.2% to RM191.8 million (January-June 2006: 44.2%; RM133 million). *Takaful* assets increased by 17.1% to RM7.6 billion as at end-June 2007 and accounted for 6.2% of the total assets of the insurance industry.

Development Financial Institutions

Enhanced effectiveness of DFIs in financing targeted sectors...

DFIs continue to contribute to the growth of strategic sectors of the economy, such as agriculture, manufacturing and infrastructure. The role of several DFIs has been enhanced in recent years to promote greater access to financing of targeted sectors. Following the approval of a sustainable microfinance institutional framework by the National SME Development Council in August 2006, Bank Simpanan Nasional (BSN) and Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) were mandated in March and April 2007 respectively, to provide commercially-driven microfinance to microenterprises and individuals operating businesses. Bank Pertanian Malaysia (BPM) is currently also providing similar microfinancing to microbusinesses in the agriculture and agro-based sectors under its Modal Usahawan Tani Scheme. The corporatisation of BPM is currently underway to promote greater efficiency and flexibility in managing its financial and operational matters. This is in line with the Government's initiative to restructure and strengthen BPM to enhance its effectiveness in providing support to the development of the agriculture sector.

In line with the Government's strategy to encourage Malaysian companies and entrepreneurs to venture abroad for market expansion, BNM

TABLE 5.8

Development Financial Institutions¹: Direction of Lending

Sector	RM million		% share	
	End-2006	End-June 2007	End-2006	End-June 2007
Primary agriculture	3,569.4	3,679.0	6.4	6.1
Manufacturing (including agro-based)	4,755.9	5,077.0	8.6	8.5
Wholesale and retail trade, hotels and restaurants	803.3	968.6	1.4	1.6
Construction	7,048.4	7,025.5	12.7	11.7
Transport, storage and communications	7,059.7	6,425.6	12.7	10.7
Finance, insurance and business activities	984.9	978.1	1.8	1.6
Others	31,216.8	35,769.4	56.3	59.7
Total	55,438.4	59,923.2	100.0	100.0

¹ Refers to Bank Pembangunan Malaysia Berhad, Bank Kerjasama Rakyat Malaysia Berhad, Bank Simpanan Nasional, Export-Import Bank of Malaysia Berhad, Bank Pertanian Malaysia, Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank), Malaysian Industrial Development Finance Berhad, Sabah Development Bank Berhad, Borneo Development Corporation (Sabah) Sendirian Berhad, Borneo Development Corporation (Sarawak) Sendirian Berhad, Credit Guarantee Corporation Malaysia Berhad, Sabah Credit Corporation and Lembaga Tabung Haji.

Source: Bank Negara Malaysia.

had established a RM1 billion Special Fund at Export-Import Bank of Malaysia Berhad in December 2006. This is to facilitate Malaysian companies, including SMEs, contractors and professionals undertaking projects overseas or venturing abroad to obtain financing from domestic banking institutions, through credit guarantee and co-financing facilities under the fund.

Total loans outstanding of DFIs grew by 8.1% to RM59.9 billion as at end-June 2007 (end-2006: RM55.4 billion), as shown in *Table 5.8*. The increase in lending was mainly on account of higher financing for consumption credit, purchase of residential properties and the maritime and infrastructure sectors. Consumption credit extended by Bank Rakyat and BSN rose by 11.8% to RM19.5 billion as at end-June 2007 due to strong consumer demand. Loans to the maritime and infrastructure sectors extended by Bank Pembangunan Malaysia Berhad increased to RM1.5 billion and RM15.6 billion respectively, mainly to finance the shipbuilding industry and

utilities sector. Lending to the agriculture sector increased by 3.1% to RM3.7 billion as at end-June 2007, reflecting higher financing by BPM for agricultural activity such as livestock, agro-based processing, fisheries and production of fertilisers and biodiesel. Financing for SMEs increased further to RM14.7 billion, accounting for 24.5% of total loans outstanding of the DFIs.

Capital Market Developments

Progress of the Capital Market Masterplan

Plan recommendations almost completed...

The **Capital Market Masterplan (CMP)**, launched in 2001 is a strategic blueprint to position Malaysia as an internationally competitive capital market. The CMP was implemented in three phases and aligned with the Eighth and Ninth Malaysia

Plans. Phase 1, implemented during 2001-2003, was a foundation-building stage with three distinctive achievements. First, it marked the introduction of reforms to strengthen Malaysia's corporate governance framework to be on par with international best practices. Malaysia has achieved significant progress in corporate governance, with the World Bank recognising this achievement in a report released in January 2007. The report gave Malaysia top marks for disclosure and transparency of accounting standards. Second, it involved the re-positioning of domestic intermediaries to consolidate liquidity and promote scale and efficiency. One significant achievement was the consolidation and demutualisation of the stock exchange, resulting in the listing of Bursa Malaysia. Third, was the shift to a disclosure-based regime (DBR) from a merit-based regime across all market segments. DBR was an important development that increased fund-raising efficiency and facilitated the broadening of the capital market.

Phase 2, implemented during 2004-2005 represented a transition, which saw accelerated changes in the stockbroking industry and gradual liberalisation to broaden access to the Malaysian capital market. The groundwork paved the way for the creation of investment banks and entry of foreign stockbrokers and fund managers. The benefits of DBR and the post-vetting approach became more apparent as the SC re-engineered many of its processes to achieve sharp reductions in turnaround time for approvals. This led to tremendous cost savings for the private sector and improved their capability to get their products to the market on a timely basis.

The CMP implementation is now midway through Phase 3, which covers the period 2006-2010. As at end-June 2007, 80.0% of the 152 recommendations in the 10-year CMP have been completed. The final phase of the CMP will focus on areas requiring regulatory attention as well as continuing with orderly changes in industry and market structures to create a suitable architecture for an internationally competitive and advanced

Malaysian capital market. The focus areas include further strengthening of the corporate governance framework; moving towards a more deregulated and less prescriptive environment in relation to the supervision of capital market intermediaries; and streamlining the regulatory regime. For instance, the Capital Market and Services Act 2007 will replace the existing Securities Industry Act 1983 and the Futures Industry Act 1993.

Funds Raised in the Capital Market

Vibrant financing activity in the capital market...

The **capital market**, comprising equities and bonds, provides an important source of medium and long-term financing. Gross funds raised in the capital market grew strongly by 53.3% to RM56.1 billion in the first six months of 2007 (January-June 2006: 5.1%; RM36.6 billion), as shown in *Table 5.9*, with the private sector contributing a larger share of 53.2% or RM29.9 billion. The issuance of Government securities increased significantly by 80.9% to RM26.2 billion (January-June 2006: -15.3%; RM14.5 billion) to finance development projects. Despite higher redemption of RM24.6 billion (January-June 2006: RM17.7 billion), net funds raised were significantly larger at RM31.5 billion (January-June 2006: RM18.9 billion).

New PDS issued by the private sector expanded further by 33.7% to RM28.6 billion (January-June 2006: 60.5%; RM21.4 billion). Islamic bonds remain a leading segment of the PDS market, with Islamic medium-term notes and bonds contributing 52.3% of PDS issued. After adjusting for redemption of RM16.4 billion, net PDS raised increased by 48.3% to RM12.1 billion (January-June 2006: RM8.2 billion). Funds raised in the equity market rose by 70.8% to RM1.3 billion (January-June 2006: RM0.8 billion), as companies were encouraged by the bullish market conditions to tap the market.

TABLE 5.9

Funds Raised in the Capital Market
January - June
(RM million)

	2006	2007 ¹
By Public Sector		
Government securities		
Malaysian Government Securities	11,005.6	19,215.4
Khazanah bonds	0.0	524.4
Government investment issues	3,500.0	6,500.0
New issues of Government securities	14,505.5	26,239.8
Less: Redemptions	4,502.9	8,153.2
Net funds raised	10,002.6	18,086.6
By Private Sector		
Shares² / Warrants		
Initial public offers	683.3	1,085.2
Rights issues	66.5	30.8
Private placements	0.0	185.5
Warrants	15.8	6.0
New issues of shares / warrants	765.6	1,307.5
Debt securities³		
Straight bonds	3,306.0	2,910.6
Convertible bonds	0.0	30.8
Islamic bonds	3,360.0	5,958.0
Asset-backed bonds	745.9	3,540.3
Medium-term notes ⁴	8,295.2	14,363.1
Cagamas bonds	5,650.0	1,750.0
New issues of debt securities	21,357.1	28,552.9
Less: Redemptions	13,181.6	16,427.4
Net issues of debt securities	8,175.5	12,125.4
Net funds raised	8,941.0	13,432.9
Total net funds raised	18,943.6	31,519.5

¹ Preliminary data.² Excludes funds raised by the exercise of employees share option scheme, transferable subscription rights and irredeemable convertible unsecured loan stocks.³ Includes bonds issued by banking institutions since July 2000.⁴ Classified as instrument of PDS since January 2004.

Source: Bank Negara Malaysia.

On a sectoral basis, PDS issuance was dominated by the electricity, gas and water supply sector, accounting for RM9.1 billion or 34.0% of total PDS issuance during the period (January-June 2006: RM3.1 billion; 19.7%), as shown in *Table 5.10*. The finance and business services sector accounted for RM9 billion or 33.2% of PDS issued, as companies issued PDS to fund working capital and financial activities. In terms of PDS utilisation, 41.0% of PDS proceeds were used for financing new activity (January-June 2006: 64.2%), reflecting the sustained growth in private investment activity.

The stronger pace of M&A activity in the market resulted in its higher utilisation of PDS proceeds. During the first six months of 2007, the amount

TABLE 5.10

New Issues of PDS¹ by Sector
(January - June)

Sector	2006		2007 ²	
	RM million	Share %	RM million	Share %
Primary agriculture	285.0	1.8	-	-
Mining and quarrying	665.6	4.2	-	-
Manufacturing (including agro-based)	270.7	1.7	2,008.4	7.5
Electricity, gas and water supply	3,096.5	19.7	9,108.2	34.0
Wholesale & retail trade, hotels and restaurants	5.4	0.0	74.0	0.2
Construction	3,278.0	20.9	3,907.1	14.6
Transport, storage and communications	140.0	0.9	1,710.0	6.4
Finance, insurance, real estate and business services	6,865.9	43.7	8,894.9	33.2
Government and others	1,100.0	7.0	1,100.0	4.1
Total	15,707.1	100.0	26,802.6	100.0

¹ Excluding Cagamas bonds.² Preliminary data.

Source: Bank Negara Malaysia.

increased ninefold to RM7.3 billion (January-June 2006: RM0.8 billion) and accounted for 27.0% of PDS issued. The number of takeover offers approved by the SC also increased to 35 proposals valued at RM66.2 billion in the first half of 2007 (January-June 2006: 15; RM8.3 billion). M&A activity was supported by ample liquidity, in addition to other factors such as the need for economies of scale and new export markets.

Equity Market

Bullish equity market...

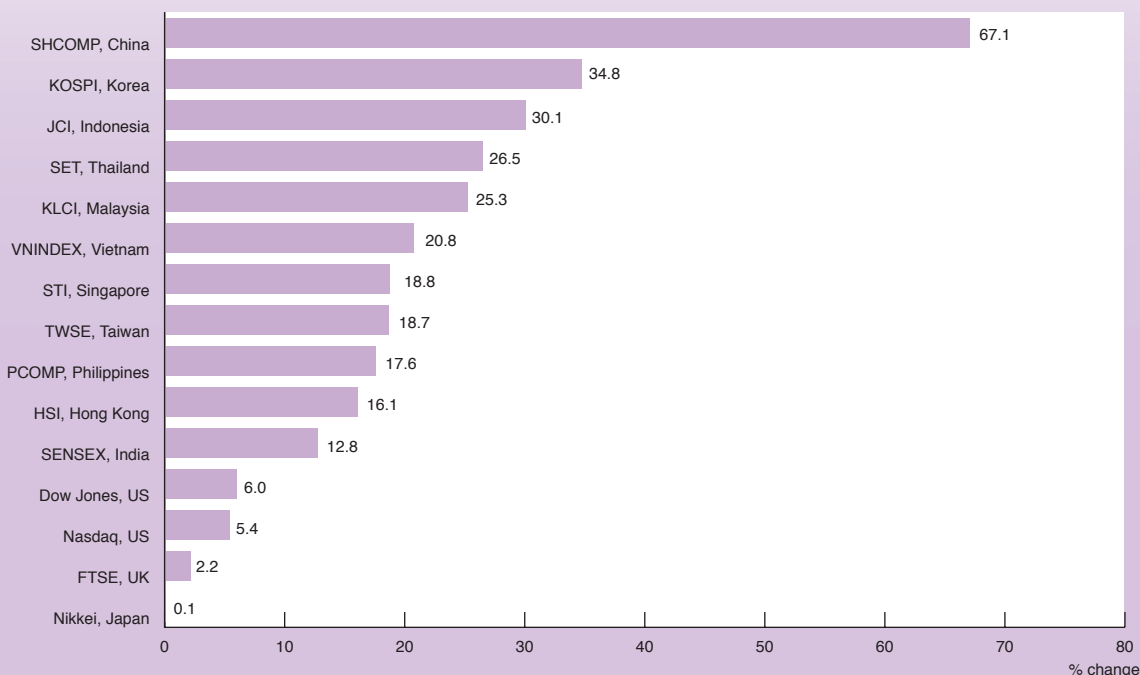
The **equity market** began 2007 on bullish sentiment, following from its strong gains since the second half of last year. Market sentiment was boosted by the favourable domestic economic growth outlook, ongoing implementation of 9MP projects, increased M&A activity and continued

inflows of foreign funds. The market, however, underwent a sharp correction in February along with other markets, following the steep decline in the stock markets in China. However, the market rebounded supported by the announcement of business-friendly measures, including the liberalisation of foreign exchange rules, the waiver of RPGT and tax incentives for IDR. The KLCI closed higher at 1,246.87 points at end-March 2007 (end-2006: 1,096.24 points).

The KLCI continued to chart fresh highs and closed at 1,306.34 points on 10 April 2007, breaching the psychological level of 1,300 points for the first time since 5 January 1994 (1,314.46 points). Likewise, market capitalisation also rose, surpassing the RM1 trillion threshold for the first time on 14 April 2007 at RM1,003 billion (end-2006: RM849 billion). The KLCI trended upward to reach a new all-time high of 1,392.18 points on 24 July and closed at 1,373.71 points at

CHART 5.5

Performance of Selected Stock Markets (End-2006 - End-July 2007)



Source: Bloomberg.

TABLE 5.11

**Bursa Malaysia: Selected Indicators
(January - July)**

	2006	2007
Price indices¹		
Composite	935.85	1,373.71
FBMEMAS	6,073.08	9,355.94
Second Board	90.24	119.50
MESDAQ Market	118.97	142.08
Total turnover²		
Volume (million units)	120,601.1	241,261.8
Value (RM million)	141,631.3	353,683.9
Average daily turnover²		
Volume (million units)	849.3	1,675.4
Value (RM million)	997.4	2,456.1
Market capitalisation ¹ (RM million)	727,792.4	1,077,281.5
Market capitalisation ¹ / GDP (%)	127.1	172.4
Total no. of companies listed¹		
Main Board	649	647
Second Board	258	238
MESDAQ Market	122	126
Market liquidity¹		
Turnover value / Market capitalisation (%)	19.5	32.8
Turnover volume / No. of listed securities (%)	36.7	67.7
Market concentration¹		
10 most highly capitalised stocks / market capitalisation (%)	35.4	33.0

¹ As at end period.² Based on market transactions.

Source: Bursa Malaysia.

the KLCI shed 94.76 points or 6.9% to 1,278.95 points on 28 August 2007 compared to end-July 2007, as markets worldwide were affected by the US sub-prime mortgage crisis.

Trading activity on Bursa Malaysia increased nearly twofold with average daily turnover at 1,675.4 million units during January-July 2007 (January-July 2006: 849.3 million units), as shown in *Table 5.11*. The market was also supported by higher inflow of foreign funds. Net inflow of portfolio funds into the equity and debt securities markets reached RM25.6 billion in the first quarter of 2007 (2006: RM12.9 billion). Foreign participation accounted for 36.5% of total trading value on Bursa Malaysia during January-July 2007 (2006: 34.3%).

On a sectoral basis, the best performing indices during January-July of 2007 were the property, construction and plantation sectors with increases of 74.5%, 56.1% and 42.6% respectively, as shown in *Table 5.12*. Gains in the property and construction sectors were supported by the rollout of 9MP projects, exemption of RPGT, relaxation of Foreign Investment Committee rules, measures to improve the delivery system of local authorities and inroads into foreign construction projects. The plantation sector benefited from higher commodity prices, especially palm oil.

Despite a number of companies taking their shares private, including that of a major telecommunications company, the equity market remains an important avenue to raise funds. A total of 18 companies were listed on the exchange during January-July 2007, comprising 10 on the Main Board, five on the Second Board and three on the MESDAQ Market (2006: 40 listings). Funds mobilised during the period amounted to RM4.97 billion, higher than the RM4.55 billion mobilised for the whole of 2006, on the back of improved investor sentiment and buoyant performance of the KLCI.

end-July 2007, an increase of 25.3% since end-2006 and is among the top performing indices in the region, as shown in *Chart 5.5*. However,

TABLE 5.12

Bursa Malaysia: Performance of Selected Indices

Index	End-Dec 2006	End-July 2007	Change (%)
Composite	1,096.24	1,373.71	25.3
FBMEMAS	7,169.59	9,355.94	30.5
Second Board	92.03	119.50	29.8
MESDAQ Market	119.92	142.08	18.5
<i>Syariah</i>	157.36	209.21	32.9
FBM100	7,122.62	9,015.03	26.6
FBM30	7,059.89	8,655.57	22.6
FBM70	7,326.67	10,199.98	39.2
Construction	200.02	312.27	56.1
Finance	8,656.12	11,280.58	30.3
Industrial	2,225.47	2,626.86	18.0
Plantation	4,315.91	6,156.58	42.6
Property	693.49	1,209.93	74.5

Source: Bursa Malaysia.

Unit Trust Industry***Sustained investor interest supports growth of unit trust industry...***

The **unit trust industry** expanded further during the first five months of 2007, with the launch of new funds and an increase in the number of units in circulation. The growth was attributed to sustained investor interest in unit trusts as a viable investment instrument. During the period, 45 new funds were launched to reach a total of 435 funds as at end-May 2007 (end-2006: 392 funds), as shown in *Table 5.13*. Units in circulation rose by 8.7% to 167.4 billion (end-December: 2006: 10.5%; 154.1 billion). The Islamic unit trust segment continued to expand, with 12 new funds bringing the total to 106 as at end-May 2007 (end-2006: 95 funds). The net asset value (NAV) of the unit trust industry rose by 18.0% to RM143.7 billion and accounted for 13.5% of the market capitalisation of Bursa Malaysia (end-2006: 23.6%: RM121.8 billion; 14.4%).

TABLE 5.13

Unit Trust Industry: Selected Indicators

	End-2006	End-May 2007
Number of unit trust management companies	38	39
Number of unit trust funds ¹	392	435
Conventional	297	329
Islamic	95	106
Units in circulation (million)	154,067	167,449
Number of accounts (million)	11.2	11.4
Net asset value (NAV) (RM million)	121,762	143,698
Conventional	112,591	132,823
Islamic	9,171	10,875
NAV/Bursa Malaysia market value (%)	14.4	13.5

¹ Refers to funds already launched.

Source: Securities Commission.

The number of new unit trust funds launched that invest in foreign markets and funds already investing abroad reached 128 funds as of end-May 2007, with investment totalling RM10.8 billion. The growth in investment overseas was attributed to liberalisation measures allowing unit trust companies to invest in foreign funds, initially at 10.0% of NAV of resident funds effective 1 April 2004, and subsequently raised to 30.0% from 1 April 2005. The threshold for investment abroad was further raised to 50.0% of NAV of resident funds effective 1 April 2007, as part of efforts to further widen investment opportunities for Malaysians.

There has been positive response to the Government's efforts to promote the development of Real Estate Investment Trusts (REITs) in the capital market. The first half of 2007 saw four new REITs listed on Bursa Malaysia bringing the total to 13 REITs. Market capitalisation of REITs rose strongly by 73.5% to RM4.98 billion as at end-June 2007 (end-2006: RM2.87 billion),

reflecting growing investor interest in REITs as an investment instrument to access the property market.

The development of exchange-traded funds (ETFs) has, however, been slow in the initial period, with only two listed ETFs as at end-July 2007. The recently listed ETF, which tracks the FTSE-Bursa Malaysia 30 index, further widens the choice to investors who had been able to invest in a bond-index ETF since July 2005. More ETFs are expected to be listed in the near future, following the call to Government-linked investment companies to participate in ETFs by selling a portion of their portfolios in exchange for units in the ETFs. A committee was set up in April 2007 to oversee the success of this exercise.

Derivatives Market

Higher trading of derivatives driven by KLCI and CPO futures...

The **derivatives market** traded more actively during January-July 2007, with turnover increasing nearly twofold to 3.7 million contracts (January-July 2006: 2 million contracts). Investor interest was concentrated on KLCI and CPO futures, with trading of the two derivatives accounting for 95.6% of total turnover. Trading in KLCI futures doubled to 1.8 million contracts (January-July 2006: 904,573 contracts). Market buying of KLCI futures was underpinned by the stronger performance of the underlying KLCI, which posted fresh highs several times in 2007.

The CPO futures market remained active, with robust growth of 88.5% to 1.7 million contracts (January-July 2006: 918,805 contracts). The strong turnover of CPO futures was attributed to the worldwide decline in edible oilseed production, rising demand for Malaysian CPO, especially from China, Pakistan and India and

market expectation of growing demand for palm oil-based biodiesel. These developments exerted upward pressure on CPO prices, with the benchmark 3-month CPO futures averaging RM2,199 per tonne during January-July 2007 (January-July 2006: RM1,467 per tonne).

Outlook 2008

Monetary policy and financial markets to support growth momentum...

Monetary policy in 2008 will continue to be directed at sustaining the growth momentum with price stability. Economic growth in 2008 is expected to be supported by robust domestic demand and a favourable external environment. Inflation is projected to remain relatively benign. There are, however, risks and uncertainties to the inflation outlook, given the sustained high global prices of energy, commodities and food. The challenge for monetary policy will be to respond preemptively to any signs of pressures or imbalances emerging in the economy. The conduct of monetary policy will be determined based on the assessment of domestic and international developments as well as their implications on price stability and economic growth.

The outlook for the capital market remains positive on the back of sustained domestic economic conditions and a favourable external sector. Corporate debt issuance is likely to be driven by new investment activity, M&As and the implementation of projects under 9MP, including IDR, the Northern Corridor Economic Region and other economic corridors. International competition in Islamic finance is likely to intensify, and Malaysia will continue to build on the MIFC initiative to further accelerate the growth of Islamic finance. The presence of foreign players in the market is expected to spur competition and the introduction of more innovative financial products.

KEY CAPITAL MARKET MEASURES

Capital market measures to further strengthen the market...

Capital market measures introduced in the first six months of 2007 were focused on further strengthening the capital market by enhancing investor protection and corporate governance; strengthening Malaysia's positioning as an Islamic capital market; promoting the derivatives market; and further enhancing market efficiency. The key measures are summarised as follows:

Enhancing Investor Protection and Corporate Governance

- With effect from 2 January 2007, only trust companies that are registered with the SC are eligible to be appointed as bond trustees. In addition, the registration criteria also stipulate that trust companies that act as bond trustees must have a track record and high professional standards.
- On 12 April, SC was accepted as a signatory to the International Organisation of Securities Commissions multilateral agreement on information sharing and enforcement of securities laws to protect investors against cross-border market abuse. With this, the SC will now have the benefit of an extensive framework for assistance and mutual co-operation with regulators from major developed markets.
- On 9 May, amendments were made to the rules of Bursa Malaysia Securities Clearing Sdn Bhd to strengthen the framework for default rules in relation to the clearing and settlement of securities transactions.
- On 11 June, SC embarked on an exercise to block access to websites offering illegal investment schemes to the public. The SC, the Malaysian Communications and Multimedia Commission and CyberSecurity Malaysia jointly undertook to track, identify and block access to local and foreign websites promoting investment scams. At the same time, investors of such schemes were urged to withdraw their investments and terminate their accounts immediately.
- On 15 June, amendments were made to the listing requirements for the Main Board, Second Board and MESDAQ Market to require disclosure of audit qualification in the quarterly reports of public listed companies (PLCs).
- On 21 June, Bursa Malaysia established the Malaysian Investor Relations Association (MIRA), a new professional body to spearhead the development of investor relations in Malaysia. MIRA is funded by the Capital Market Development Fund, which is a statutory fund set up in 2004 to facilitate the development of an efficient, innovative and internationally competitive Malaysian capital market. At the same time, Bursa's Investor Relations Manual will help guide PLCs in designing investor relations programmes to keep investors informed of the business practices of PLCs.

Strengthening Malaysia's Positioning as an International Islamic Capital Market

- On 22 January, Bursa Malaysia in collaboration with FTSE Group, a global index provider, launched the FTSE-Bursa Malaysia EMAS Syariah index. The new index will run parallel with the existing Kuala Lumpur *Syariah* Index (KLSI) until 1 November 2007, when the KLSI will be deactivated. The FTSE-Bursa Malaysia EMAS *Syariah* index will then become the singular benchmark index for Malaysian *syariah*-compliant investments.

- On 27 March, BNM and SC released a Joint Information Note on the facilitative regulatory framework for the issuance of foreign currency-denominated bonds and *sukuk* in Malaysia. The Note outlined the procedures for the issuance of foreign currency-denominated bonds and *sukuk* by qualified issuers.
- In March, the SC and Dubai Financial Services Authority signed a mutual recognition agreement to facilitate cross-border flow of Islamic funds. Subsequently on 29 June, SC issued new guidelines whereby funds from or listed in recognised jurisdictions by SC can be offered directly into Malaysia. Dubai International Financial Centre (DIFC) became the first recognised jurisdiction to give Malaysians direct access to DIFC Islamic funds. At the same time, Malaysian funds can now also be offered and distributed in Dubai.

Promoting the Derivatives Market

- On 14 March, Bursa Malaysia announced the reduction of derivatives transaction fee and revisions to CPO futures contracts, with the aim of growing the derivatives market by 40.0%. Effective 1 April 2007, the exchange and clearing fees were reduced for KLCI futures from RM6 to RM5, CPO futures from RM4 to RM3 and financial derivatives from RM3 to RM1. Effective 16 March 2007, the revisions to the CPO futures contract specifications included the introduction of new contract months, increase in position limits and change from static to dynamic price limits.
- On 20 March, Bursa Malaysia announced that it will be conducting a series of futures investment seminars nationwide this year. The initiative is aimed at expanding activity and players in the derivatives market.
- On 13 June, Bursa Malaysia raised the initial margin (a form of returnable collateral or performance bond on investors upon closing of all open positions) on CPO futures contracts effective 15 June 2007. The increase in margin rates was to address the significant price volatility in the market.

Enhancing Market Liquidity and Efficiency

- With effect from 3 January 2007, regulated short selling (RSS) and securities borrowing and lending (SBL) were reintroduced into the Malaysian capital market, starting with an initial list of 70 stocks. RSS and SBL are expected to contribute to greater liquidity and enhance the vibrancy of the market.
- The Prospectus Guidelines – Abridged Prospectus (AP Guidelines) of SC came into effect on 15 January 2007. Under the AP Guidelines, the rights issue framework has been enhanced, requiring greater disclosure of allotment of excess rights shares and shortening the registration timeframe for abridged prospectuses from seven to one market day, thus enhancing the efficiency of raising funds.
- On 9 March, Bursa Malaysia announced the implementation of SPEEDS to shorten time-to-market for sub-division of shares, share consolidation and bonus issue exercises. SPEEDS allows securities arising from such corporate exercises to be traded on the next market day after the books closing date instead of the current timeframe of 6 to 10 market days.
- On 20 March, SC announced that more than 60.0% of applications for exemptions from having to undertake mandatory offers will be approved within one working day from 21 working days previously.

- On 22 March, Bursa Malaysia announced that it will be implementing Direct Market Access (DMA), a zero-touch electronic trading solution that enables real-time execution of trade orders. The DMA will be implemented in two phases. The first phase will involve the Derivatives DMA targeted for completion by end-2007. The second phase will encompass equities and derivatives on a single DMA trading platform slated for implementation in 2008.
- On 9 April, Bursa Malaysia announced key amendments relating to the listing of foreign companies in Malaysia, structured warrants and related party transactions in its listing requirements. The amendments are aimed at enhancing market diversity and accessibility, and improving efficiency.