

OVERVIEW OF MALAYSIAN STOCK MARKET

This topic is intended as a brief introduction by way of providing an overview of the stock markets. We will examine the stock exchange which provides the market for trading securities, and the particular characteristics of the Malaysian stock Market, as well as look at the players who invest in the stock market.

PARTICIPANTS AND INTERMEDIARIES IN THE MALAYSIAN STOCK MARKET

There is a diverse range of investors, investment strategies and products in the stock market. Users of the stock market can be categorised into two groups: institutional investors and retail investors.

Institutional Investors

Institutional investors are represented by a variety of institutions that include pension funds, life and general insurance funds, unit trust funds, corporate investors and international investors.

Institutional investors tend to use stock selection methods, such as the bottom-up approach (i.e. an investment approach that focuses on the analysis of individual stocks and de-emphasises the significance of economic and market cycles), top-down approach (i.e. opposite of bottom-up approach) and technical analysis.

Retail Investors

Retail investors in the Malaysian stock market include short-term and long-term investors. Some retail investors in the Malaysian stock market are speculators. Others are more conservative and tend to deal only in blue chip stocks. Some retail investors who have a high net worth may have professional fund managers who manage their portfolio in accordance with their specific investment requirements. Other investors may have a portfolio of investments that they manage personally. It may include a spread of investments across equity, property, fixed interest and cash investment vehicles. Often, such a portfolio will have an emphasis on low-risk capital growth and high-income bearing investments via dividends and interest.

Some individuals may wish to obtain diversity in their portfolios but may not have sufficient funds for direct equity investment. They may, therefore, gain exposure to the stock market through a unit trust fund.

Sophisticated Investors (please refer to Part 1, Schedules 6 and 7 of the CMSA)

These are investors who fall into any of the following categories with the respective qualifying criteria:

(a) High-Net-Worth Individuals

- (i) An individual whose total net personal assets, or total net joint assets with his/her spouse, exceeds RM3 million or its equivalent in foreign currencies, excluding the value of the individual's primary residence;
- (ii) An individual who has a gross annual income exceeding RM300,000 or its equivalent in foreign currencies per annum in the preceding 12 months; or
- (iii) An individual who, jointly with his/her spouse, has a gross annual income exceeding RM400,000 or its equivalent in foreign currencies per annum in the preceding 12 months.
- (iv) An individual whose net personal investment portfolio or total net joint investment portfolio with his or her spouse, in any capital market products exceeding one million ringgit or its equivalent in foreign currencies

(b) High-Net-Worth Entities

- (i) A corporation with total net assets exceeding RM10 million or its equivalent in foreign currencies based on the last audited accounts;
- (ii) A partnership with total net assets exceeding RM10 million or its equivalent in foreign currencies;
- (iii) A company that is registered as a trust company under the Trust Companies Act 1949 which has assets under management exceeding RM10 million or its equivalent in foreign currencies;

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- (iv) A corporation that is a public company under the Companies Act 2016 which is approved by the SC to be a trustee under the CMSA and has assets under management exceeding RM10 million or its equivalent in foreign currencies;
 - (v) A pension fund approved by the Director General of Inland Revenue under the Income Tax Act 1967; or
 - (vi) A statutory body established by an Act of Parliament or an enactment of any State in Malaysia.

(c) Accredited Investor

- (i) Central Bank of Malaysia established under the Central Bank of Malaysia Act 2009;
- (ii) A holder of a Capital Markets Services Licence;
- (iii) An executive director or chief executive officer of a holder of a Capital Markets Services Licence;
- (iv) A unit trust scheme or a prescribed investment scheme;
- (v) A closed-end fund approved by the SC;
- (vi) A licensed institution as defined in the Banking and Financial Institutions Act 1989 or an Islamic bank as defined in the Islamic Banking Act 1983;
- (vii) A bank licensee or insurance licensee as defined under the Labuan Financial Services and Securities Act 2010;
- (viii) An Islamic bank licensee or takaful licensee as defined under the Labuan Financial Services and Securities Act 2010
 - An insurance company registered under the Insurance Act 1996 or a takaful operator registered under the Takaful Act 1984;
 - A takaful operator registered under the Takaful Act 1984; or
 - A private retirement scheme as defined in the CMSA.

Intermediaries

Participating Organisations

A Participating Organisation is a company that carries on the business of trading in securities on the Exchange's stock market and is admitted as a Participating Organisation under Rule 3.02 of the Rules of Bursa Malaysia Berhad and includes all the Participating Organisation's Branch Offices. Participating Organisations, or dealers as they are commonly known, play a critical role in the securities industry as the link between the client and the stock market. Therefore, a stockbroking company or an Investment Bank may become a Participating Organisation subject to the fulfilment of the relevant requirements set out under Rule 3.01.

Only a company incorporated in Malaysia can carry on a business of dealing in securities². It can be privately or publicly owned. The operation of a stockbroking business in the form of a partnership is not allowed in Malaysia.

Participating Organisations must comply with the minimum financial requirements as set out in Chapter 4, Table 1 of the SC's Licensing Handbook. In addition, stockbroking companies must comply with capital adequacy requirements that address both liquidity and solvency issues together with risks faced.

A stockbroking company, other than a Special Scheme Broker and Investment Bank', shall have a minimum of 30% local shareholders. The licence to operate a stockbroking company is issued to the company and not to the shareholders. However, the licence is endorsed with the names of those owning the shares, and the directors and the company secretary of the stockbroking company.

What does a Participating Organisation do?

While the operations of each Participating Organisation (dealer) may vary slightly from one to another, depending on the size of business, the type of clientele and level of

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computerisation of the Participating Organisation, the functions within are essentially similar.

Primarily, Participating Organisations carry out the regulated activity of “dealing in securities” whether as principal or agent.

Schedule 2, Part 2 of the CMSA provides that “dealing in securities” means:

- Acquiring, disposing of, subscribing for or underwriting securities; or
- Making or offering to make with any person, or inducing or attempting to induce any person to enter into or to offer to enter into:
 - (i) Any agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities; or
 - (ii) Any agreement, other than a derivatives, the purpose or avowed purpose of which is to secure a profit to any of the parties from the yield of securities or by reference to fluctuations in the value of securities.

Chapter 6 of the Rules of Bursa Malaysia Securities Berhad sets out the scope of permitted businesses of Participating Organisations. A Participating Organisation intending to carry out any other business apart from trading in securities on the stock market of the Exchange must comply with the relevant requirements imposed by the SC or Bank Negara Malaysia. It must notify the Exchange in writing prior to the commencement of the permitted businesses.

The Exchange may require the Participating Organisation to take such steps as the Exchange thinks fit to manage the potential risks or conflicts of interests arising from carrying out both the **Permitted Businesses and the Participating Organisation's** business of trading in securities on the Stock Market of the Exchange.

Generally, depending on whether they are Universal Brokers, Investment Banks or non-Universal Brokers, Participating Organisations may do some or all of the following:

- Take orders from clients to buy or sell securities transactions via Bursa Malaysia Securities Berhad's fully automated trading system
- Advise clients on possible investments
- Ensure payment is received from buying clients
- Ensure when a client buys or sells shares that all appropriate benefits flow, e.g. dividends, new issues, etc.
- Conduct research and report on the performance of listed companies and other securities
- Underwrite new issue of securities
- Provide advice on corporate finance
- Transact business as a principal and arbitrage between markets.

The main operations of a Participating Organisation will usually include dealing or trading, accounts and contracts departments because the stockbroking business revolves around the buying and selling of shares.

Categories of Participation Organisations are as follows:

(a) Investment Bank - An Investment Bank is an entity that holds a Capital Markets Services Licence (CMSL) pursuant to s.58 of the CMSA for the regulated activity of dealing in securities and holds a licence under s.10 of the Financial Services Act 2013 to carry on an investment banking business, and duly established pursuant to the Guidelines on Investment Bank issued jointly by Bank Negara Malaysia and the SC.

(b) Universal Broker - A Universal Broker is a stockbroking company that has merged with or acquired at least three other stockbroking companies and has satisfied all the conditions and requirements stipulated by the SC under the Policy Framework for Stockbroking Industry Consolidation.

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(c) Special Scheme Broker - A Special Scheme Broker is a foreign stockbroking company that is licensed to carry out regulated activities pursuant to the Application for Establishment of Foreign Stockbroking Companies under the Special Scheme.

(d) 1 + 1 Broker - A 1+1 Broker is a stockbroking company that has complied with the Policy Framework for Stockbroking Industry Consolidation and has acquired, taken over, amalgamated or merged with at least one other stockbroking company.

(e) Standalone Broker - A Standalone Broker is a Participating Organisation that has not complied with the SC's Policy Framework for Stockbroking Industry Consultation as stated in the Licensing Handbook.

Dealer's Representatives

A dealer's representative is a holder of a Capital Markets Services Representative's Licence (CMSRL) for dealing in securities.

There are three types of dealer's representatives:

(a) Commissioned Dealer's Representatives

A Commissioned Dealer's Representative is a dealer's representative the Participating Organisation engages on a non-salaried basis. He/she is more commonly known as a "remisier". He/she can trade on behalf of clients only and cannot execute proprietary trades on behalf of his/her Participating Organisation. He/she can execute any other trading activity the SC permits except Day Trading.

Day Trading means the taking of proprietary positions by the Participating Organisation on an intraday buy and sell and vice versa, and for the avoidance of doubt excludes Direct Business transactions.

(b) Salaried Dealer's Representatives

A Salaried Dealer's Representative is a dealer's representative a Participating Organisation employs on a salaried basis. He/she can trade on behalf of clients or execute proprietary trades on behalf of his/her Participating Organisation (only if not trading on behalf of clients). However, he/she cannot perform as a Salaried Dealer's Representative and at the same time execute proprietary trades.

(c) Proprietary Day Traders

Proprietary Day Traders can only execute Day Trading on behalf of their Participating Organisation and cannot execute client trades nor act as Futures Broker's Representatives. They can execute any other trading activity the SC permits.

Trading Representatives

Apart from the dealer's representatives mentioned above, Trading Representatives (TR) and Marketing Representatives (MR) also play a role in dealing in securities. TR means a person who executes securities trades for a Participating Organisation and is registered with the SC under s.76 of the CMSA.

The permitted activities and obligations of a TR are listed as below:

(a) A TR must only act on behalf of one Participating Organisation at all times

(b) A TR is only permitted to accept clients' order (order taking) and execute securities trades

(c) In carrying out the above activities, a TR must not induce, or attempt to induce, any client to enter into, or make or offer to any client to enter into, any transaction to trade

(d) A TR must continuously comply with the fit and proper criteria as set out under Schedule 1 – Fit and Proper Criteria for Trading Representative and Recognised Representative of the Licensing Handbook.

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The registration and entry requirements to be a TR are set as follows:

- (a) The applicant must be **at least 21 years old**
- (b) The applicant satisfies fit and proper criteria **as set out under Schedule 1 of the Licensing Handbook**
- (c) The applicant **has completed a familiarisation programme and passed the required assessment at the end of the familiarisation programme**
- (d) The applicant **must possess a Degree or professional qualification from an institution recognised by the Government of Malaysia or Diploma from an institution recognised by the Government of Malaysia or Sijil Pelajaran Malaysia (SPM) or equivalent qualification recognised by the Government of Malaysia, provided that the applicant has at least three years' prior experience as a trading clerk registered with Bursa Malaysia Securities Berhad.**

For further details, please see **Chapter Security Offences and Schedule 1 of the Licensing Handbook.**

Marketing Representatives

A Marketing Representative (MR) means a person who acts as an introducer for a principal, undertakes marketing of the services, provides client support services and is registered with the principal under the **Guidelines For Marketing Representative** which is issued by the SC pursuant to **section 377 of the CMSA**. A principal carrying out any of the regulated activities pursuant to Schedule 2 of the CMSA may register a person as an MR.

The permitted activities and obligations of an MR are listed as below:

- (a) An MR is prohibited from carrying out any regulated activity and must not hold himself/herself out as a licensed person or a registered person under s.76 of the CMSA.
- (b) An MR may act on behalf of multiple principals.
- (c) An MR is permitted to carry out referral and marketing activity which includes the following:
 - (i) Arranging for the client to meet with or speak to the principal
 - (ii) Forwarding client's particulars to the principal
 - (iii) Providing the client with factual information relating to products and services offered by the principal including conducting presentations
 - (iv) Providing client support services such as forwarding information on performance of fund to clients.
- (d) An MR must make appropriate disclosures to the client which includes the following:
 - (i) That he/she is carrying out referral and marketing activities on behalf of his/her principal
 - (ii) That he/she is not allowed to give advice or provide recommendation in relation to the regulated activity.
- (e) An MR is prohibited from carrying out suitability assessment of clients and providing clients with specific recommendation.
- (f) An MR must refer a client to a licensed person if the client asks for specific recommendation or advice on a capital market product.
- (g) An MR must not take clients' orders, execute trades, handle or accept clients' monies or give transactional advice to clients.
- (h) An MR must inform the client of any remuneration scheme and its amount in relation to such marketing activity, if requested by the client.
- (i) An MR must conduct his/her activities efficiently, honestly and fairly.

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(j) An MR must ensure continuous compliance with the fit and proper criteria as set out in Schedule 1 of the Guidelines For Marketing Representative.

The Registration and entry requirements to be an MR are set as follows:

(a) An individual may be registered with any principal as an MR.

(b) The individual must be at least 21 years old and possess a Degree or professional qualification or diploma from an institution recognised by the government of Malaysia

(c) The individual has completed a familiarisation programme and passed the required assessment at the end of the familiarisation programme.

(d) A principal may only register a person as an MR where it is satisfied that:

(i) The applicant complies with the requirements set out in the Guidelines For Marketing Representative

(ii) The applicant is fit and proper in accordance with the criteria set out in the Guidelines For Marketing Representative

(iii) The applicant has satisfied the entry requirements set out in the Guidelines For Marketing Representative.

Another important department in any Participating Organisation is the investment research department which comes out with research material for clients on companies, market trends, industry trends and general economic news.