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.

SECURITIES

What are Securities?

Within the context of financial markets, **"securities"** **is a general term used and applied to instruments such as stocks, shares, debentures, notes, bills, bonds, etc.**
Securities **are typically the documents that are evidence of ownership or debt.**
A shareholding is evidence of ownership whereas a debenture or bond is evidence of debt.
Securities are **exchangeable or saleable in the market place.**
"Securities" is **the term used to describe any "interest-bearing or dividend-paying" paper traded in financial markets.**
The Capital Markets and Services Act 2007 (CMSA), section 2 defines "securities" as:
(a) Debentures, stocks or bonds issued or proposed to be issued by any government.
(b) Shares in or debentures of, a body corporate or an unincorporated body.
(c) Units in a unit trust scheme or prescribed investments.

aid includes any right, option or interest in respect thereof.

What is a Stock Market?

A stock market **consists of the trading of stocks and related securities on all exchanges, including the over-the-counter market.**
The stock market **is the central market place for the raising of equity funds by corporations and governments.**
It provides a market place where company and government securities may be bought and sold.
It brings together enterprises, which intend to raise money through the issue of new securities to individuals or organisations that seek to invest their savings or surplus funds. In doing so, the stock market offers investors liquidity, i.e. the ability to convert their investments cash at short notice, thereby encouraging the flow of savings into productive ventures.

What is a Stock Exchange?

A stock exchange **is an organisation which provides the market place or facility for the buying and selling of securities under strict rules, regulations and guidelines.**

Finance and Investing

A stock exchange must develop to meet two basic and complementary needs:
(i) a business need for raising funds (i.e. the primary market) and
(ii) an individual's or company's desire to invest savings efficiently (i.e. the secondary market).

(a) The primary market allows a company or other types of entities to raise initial capital. This is usually done by a company issuing a prospectus through an underwriting stockbroking company. The purchasers of the shares become the initial owners. They can remain shareholders of that company or sell their shares on the secondary market.

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The primary market embraces issues of debentures, preference shares and notes, as well as the equity securities of listed companies, and is used by governments and companies, both public and private. By issuing securities such as shares, which offer the prospect of

dividends and capital gains, businesses can attract funds. Similarly, by issuing debentures, which offer interest, businesses can attract the funds of those who prefer a “less risky” investment.
Hence, the stock market channels funds into productive areas of the economy and this speeds economic growth and raises living standards.

(b) The secondary – market is the central market place provided by the stock exchange where people can buy and sell securities that have been previously issued to the market. It is an auction system and the price of the share is determined by supply and demand.

In a free enterprise system, funds are directed to areas that investors consider to have the most profitable opportunities and these judgments are, in turn, reflected in the level of activity in the secondary market where transactions in existing securities are effected. So shares of companies which prospects are judged to be good will be in demand and may command relatively high prices. On the other hand, shares of companies with relatively poor and mediocre prospects, sell at relatively low prices in the market.

Duties of a Stock Exchange
In Malaysia, the duties of a stock exchange are set out in section 11 of the CMSA and include the following:

(a) To ensure, in so far as may be reasonably practicable, an orderly and fair market in the securities that are traded through its facilities.
In performing the above duty, the stock exchange shall:
(i) Act in the public interest having particular regard to the need for the protection of investors
(ii) Ensure that where any interests that are required to be served under any law relating to corporations’ conflicts with the interest of the public, the latter shall prevail.

(b) To immediately notify the Securities Commission Malaysia (SC) if it becomes aware of:
(i) Any matter which adversely affects, or is likely to adversely affect, the ability of any relevant person to meet his/her obligations in respect of his/her business dealing in securities and derivatives, including the ability of any relevant person to comply with the minimum financial requirement as may be prescribed under the CMSA.
(ii) Any irregularity, breach of any provision of the securities law or the rules of the exchange or approved clearing house, or any other matter, which, in the opinion of the exchange, indicates or may indicate, that the financial standing or financial integrity of any relevant person or of the chief executive or directors of the relevant person is in question or may reasonably be affected.

(c) To take appropriate action as may be provided for under its rules for the purpose of monitoring or securing compliance with such rules.

(d) To at all times have sufficient financial, human and other resources to ensure the provision of:
(i) An orderly and fair market in relation to securities or derivatives that are traded through its facilities

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(ii) Adequate and properly equipped premises for the conduct of its business
(iii) Competent personnel for the conduct of its business
(iv) Automated systems with adequate capacity, and security arrangements facilities to respond to emergencies.

Stock Exchanges in Malaysia

Stock exchanges in Malaysia comprise Bursa Malaysia Securities Berhad, the securities exchange, and Bursa Malaysia Derivatives Berhad, the futures and options exchange. Bursa Malaysia Securities Berhad will be described and discussed in further detail in subtopic.

Bursa Malaysia Derivatives Berhad

In Malaysia, **Bursa Malaysia Derivatives Berhad (BMDB),** formerly known as Malaysia Derivatives Exchange Berhad (MDEX) is the sole exchange offering both futures and exchange-traded options.

Like all derivatives exchanges, the basic functions of **Bursa Malaysia Derivatives Berhad** are as follows:

(a) To provide facilities whereby buyers and sellers can meet to trade contracts
(b) To ensure open and competitive trading
(c) To set and enforce rules for operating in the derivatives market
(d) To collect and disseminate market and price information.

Historically, the derivatives industry commenced in 1980 with the establishment of the Kuala Lumpur Commodity Exchange (KLCE). The initial futures contract traded on KLCE was the crude palm oil futures contract (FCPO). This contract is still traded today. The KLCE had the infrastructure and capacity to allow for the trading of financial futures; however, setting up a subsidiary was necessary because trading in the financial futures fell under different jurisdictions.

Therefore, on 19 August 1992, the KLCE, with the support of the government authorities, incorporated a wholly owned subsidiary called the Kuala Lumpur Futures Market Sdn Bhd (KLFM), which was later renamed the Malaysian Monetary Exchange (MME) in mid-1995. On 7 May 1996, the Minister of Finance approved the establishment and operation of MME as a futures and options xchange company and the 3-month KLIBOR Futures was launched on 28 May 1996.

On 9 November 1998, the KLCE was renamed the Commodity and Monetary Exchange of Malaysia (COMMEX) in preparation for a merger with the MME. The merger took place on 7 December 1998.

The Kuala Lumpur Options and Financial Futures Exchange (KLOFFE), Malaysia's first financial derivatives exchange, was established on 11 December 1995. KLOFFE was licensed as a futures and options exchange. Stock index futures and stock index options were first traded on 15 December 1995 and 1 December 2000 respectively.

In line with the first Capital Market Masterplan (CMP1) of the SC, KLOFFE and COMMEX merged on 11 June 2001 and formed a new derivatives exchange called the Malaysia Derivatives Exchange Berhad (MDEX). Consequential to the demutualisation of the KLSE in 2004, MDEX was renamed the Bursa Malaysia Derivatives Berhad (BMDB).

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On 17 September 2009, Bursa Malaysia Berhad entered into a strategic partnership with the Chicago Mercantile Exchange (C ME) with the view of improving accessibility to its derivatives offerings globally. The partnership covered licensing of the settlement prices of the FCPO to position Malaysia as the global price benchmark for the commodity as well as global distribution of Bursa Malaysia's products through C ME's Globex electronic trading platform.

Prior to September 2019, CME held 25% of the equity stake in BMDB, while the remaining 75% interest was held by Bursa Malaysia Berhad. However, in September 2019, Bursa Malaysia Berhad announced that the company was acquiring the remaining 25% equity in BMDB from CME Group Strategic Investments LLC for RM162.47 million and an additional sum, following the exercise of a put option under an agreement signed in 2009.