

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.

THE MALAYSIAN STOCK MARKET

What is the Malaysian Stock Market?

The Malaysian stock exchange is called Bursa Malaysia Securities Berhad. It governs the conduct of its participants in securities dealings, and is responsible for the surveillance of the market place, as well as for the enforcement of its listing requirements, which spell out the criteria for listing, disclosure requirements and standards to be maintained by listed companies.

Bursa Malaysia Securities Berhad

Bursa Malaysia Securities Berhad has 951 listed companies as of March 2020 (please refer to

<http://www.bursamalaysia.com/market/listed-companies/initial-public-offerings/listing-statistics/>) offering a wide range of investment choices to local and global investors.

Companies are either listed on the Main Market, ACE Market or LEAP Market.

Main Market

On 8 May 2009, the SC and Bursa Malaysia Securities Berhad launched a new framework for listings and equity fund-raising, which entailed the merging of the Main Board and Second Board into a single board known as “the Main Market” on 3 August 2009.

The new framework introduced a board structure comprised of different markets that were streamlined and clearly demarcated between established and emerging companies to raise capital for different investor risk appetites. In the previous structure, the Main Board comprised large cap companies and the Second Board comprised medium cap companies. The Main Market comprising the merged Main and Second Board is intended as the primary market for established companies with clear listing requirements. As of March 2020, there were 790 companies listed on the Main Market (please refer to <https://www.bursamalaysia.com>).

ACE Market

As part of the new board structure, the ACE Market replaced the Malaysian Exchange of Securities and Dealing and Automated Quotation Berhad (MESDAQ) with effect from 3 August 2009. Whilst MESDAQ was confined to high growth or technology firms, the ACE Market is intended to be the alternative market that is sponsor-driven and allows access to companies of all sizes and from all economic sectors, particularly to facilitate early access to capital raising for emerging companies. As of March 2020, there were 130 companies listed on the ACE Market (please refer to <https://www.bursamalaysia.com>).

LEAP Market

The LEAP Market is an alternative market offered by Bursa Malaysia in 2017 which aims to provide small- and medium-sized enterprises (SMEs) and other companies with greater fund raising access and visibility via the capital market. As of March 2020, there were 31 companies listed in this market (please refer to <https://www.bursamalaysia.com>).

As prescribed under the CMSA, it is accessible only to sophisticated investors. The LEAP Market provides an efficient and transparent capital formation and price discovery mechanism compared to private markets, thereby allowing sophisticated investors to have greater opportunities to participate in the growth of SMEs.

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Types of Securities on Bursa Malaysia Securities Berhad

There are many different types of securities traded on Bursa Malaysia Securities Berhad. They are:

(a) **Ordinary shares/stocks** — Shares in a company which give holders the rights of ownership of the company, such as the right to share in the profits of the company by way of dividend, as well as the right to vote in general meetings and to elect and dismiss directors. Generally, ordinary shares constitute the bulk of a company's capital. Ordinary shareholders have no special rights over other shareholders and shall rank lowest in priority after all other liabilities of a company, in the event of liquidation.

(b) **Preference shares** — Shares of a different class from ordinary shares which give holders a preferential position over ordinary shareholders in respect of the payment of dividends (normally of a fixed amount) and may be preferred as regards the distribution of assets, in the event of liquidation. Generally, preference shares do not carry any voting rights except in cases where it may be made contingent upon failure to pay dividends on preference shares for a certain period of time.

(c) **Debentures** — Securities which is evidence of indebtedness of a corporation for monies borrowed. Fixed interest securities bearing a maturity date and a specified rate of interest.

The assets of the borrowing company are charged against the debenture issue; details of the charge are included in a debenture deed drawn up to protect the debenture holder. In essence, debentures are long-term loans to companies secured on certain fixed or floating assets of a company.

(d) **Loan stock/notes** — Securities issued by a company for a loan made by investors. Loan stocks may be secured, unsecured, convertible or non-convertible, but are often unsecured.

(e) **Bonds** — Documents recording a loan specifying the date of its maturity and the rate of interest to be paid at each specified period. It is a common name for fixed interest securities of more than one year in term.

(f) **Warrants** — Give holders a right, but not an obligation, to subscribe for a specified number of new ordinary shares at a specified price during a specified period. The company issues the warrants, which are usually attached to an issue of loan stock.

(g) **Call warrants** — Give holders a right, but not an obligation, to buy a fixed number of shares at the specified price within a limited period. Call warrants are issued by parties other than the issuer of the underlying assets based on existing shares.

(h) **Exchange Traded Fund (ETF)** — A collective investment vehicle which is an index-based fund that allows investors to buy or sell exposures to an index through a single financial instrument. ETFs are shares of a portfolio and not an individual company. Similar to equity securities, ETFs are traded on Bursa Securities through stockbrokers.

(i) **Real estate investment trust (REIT) units** — Units in a listed trust fund, which invests in real estate.

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The list of all securities, which have been admitted for quotation in accordance with the Listing Requirements of Bursa Malaysia Securities Berhad, is known as the Official List.

Indices

In general, indices for a stock exchange are calculations made on an index number basis to indicate the movements in the general level of prices of securities listed on the stock exchange. Indices are used as indicators of the performance of the stock market as a whole. A stock market index can be based on all the stocks listed on a stock exchange or on only a sample of stocks. Some indices are computed on the simple average closing price basis while others are derived using a weighted average method.

In Malaysia, the FTSE Bursa Malaysia Index Series is a comprehensive and complementary set of equities indices designed and developed to measure the performance of the major capital and industry segments of the Malaysian and regional capital markets.

The FTSE Bursa Malaysia Index Series consists of five tradable indices and 11 benchmark indices as outlined below in the diagram 1:

The index series above covers all stock sizes within the market and provides the investors with a better tool to benchmark their investments. The indices are also suitable for the creation of investment products such as ETFs, derivatives, structured products and index tracking funds.

All Malaysian companies listed on the Main Market or ACE Market of Bursa Malaysia Securities Berhad are eligible for inclusion, subject to meeting FTSE's international standards of free float, liquidity and investability. The FTSE Bursa Malaysia index methodology allows investors to do cross-border analysis and comparison, while a set of Ground Rules provides transparency to the management of the index series.

The two main eligibility requirements stated in the FTSE Bursa Malaysia Ground Rules are the free float and liquidity requirements:

(a) Free Float

A free float factor is applied to the market capitalisation of each company in accordance with the band specified in the FTSE Bursa Malaysia Ground Rules. The factor is used to determine the attribution of the company's market activities in the index. Each company is required to have a minimum free float of 15% to be eligible for inclusion.

The calculation of a company's free float excludes restricted shareholding such as cross holdings, significant long-term holdings by founders, their families and/or directors, restricted employee share schemes, government holdings and portfolio investments subject to a lock-in clause, for the duration of that clause.

(b) Liquidity

A liquidity screen is applied to ensure the company's stocks are liquid enough to be traded. Companies must ensure that at least 10% of their free float adjusted shares in issue are traded in the 12 months prior to an annual index review in December.

FTSE uses real-time and closing prices sourced from Bursa Malaysia to calculate the FTSE Bursa Malaysia KLCI. The calculation is based on a value-weighted formula and adjusted by a free float factor. The FTSE Bursa Malaysia KLCI values are calculated and disseminated on a real-time basis every 15 seconds.

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The FTSE Bursa Malaysia KLCI

The Kuala Lumpur Composite Index (KLCI), which was the primary benchmark index for Malaysia, was enhanced through a partnership between Bursa Malaysia Berhad and its index partner FTSE Group (FTSE) in July 2009 with the adoption of the FTSE global index standard.

The enhanced KLCI is now known as the FTSE Bursa Malaysia KLCI. It comprises the Main Market's largest 30 companies by full market capitalisation that meet the eligibility requirements of the FTSE Bursa Malaysia Ground Rules.

Diagram 1: The FTSE Bursa Malaysia Index Series

Tradable Indices	
FTSE Bursa Malaysia KLCI Index	Comprises the 30 largest companies in the FTSE Bursa Malaysia EMAS Index by full market capitalisation.
FTSE Bursa Malaysia Mid 70 Index	Comprises the next 70 largest companies in the FTSE Bursa Malaysia EMAS Index by full market capitalisation.
FTSE Bursa Malaysia Top 100 Index	Comprises the constituents of the FTSE Bursa Malaysia KLCI and the FTSE Bursa Malaysia Mid 70 Index
FTSE Bursa Malaysia Hijrah Shariah Index	Comprises the largest 30 companies of the FTSE Bursa Malaysia EMAS Index by full market capitalisation that are screened by Yasaar and the SC's Shariah Advisory Council (SAC) to meet the requirements of international Shariah-compliant investors.
FTSE Bursa Malaysia Asian Palm Oil Plantation Index (USD and MYR)	Based on the universes of developed, advanced emerging and secondary emerging countries as classified by FTSE in the Asia Pacific region excluding Japan, Australia and New Zealand; comprises companies which earn a substantial proportion of revenue from palm oil activities.
Benchmark Indices	
FTSE Bursa Malaysia EMAS Index	Comprises the constituents of the FTSE Bursa Malaysia Top 100 Index and FTSE Bursa Malaysia Small Cap Index
FTSE Bursa Malaysia MidS Cap Index	Comprises constituents from the FTSE Bursa Malaysia EMAS Index with full market capitalisation between RM200 million and less than RM2 billion
FTSE Bursa Malaysia Small Cap Index	Comprises those eligible companies within the top 98% of the Bursa Malaysia Main Market excluding constituents of the FTSE Bursa Malaysia Top 100 Index
FTSE Bursa Malaysia Fledgling Index	Comprises the Main Market companies that meet stated eligibility requirements but are not in the top 98% by full market capitalisation and are not constituents of the FTSE Bursa Malaysia EMAS Index.
FTSE Bursa Malaysia EMAS Shariah Index	Developed for domestic Shariah-compliant investors; comprises the Shariah-compliant constituents of the FTSE Bursa Malaysia EMAS Index that meet the screening requirements of the SAC.
FTSE Bursa Malaysia MidS Cap Shariah Index	Comprises all constituents of the FTSE Bursa Malaysia MidS Cap Index that are Shariah-compliant according to the SAC screening methodology.
FTSE Bursa Malaysia Small Cap Shariah Index	Comprises the constituents of the FTSE Bursa Malaysia Small Cap Index that are Shariah-compliant according to the SAC screening methodology.
FTSE Bursa Malaysia ACE Index	Comprises all eligible companies listed on the Bursa Malaysia ACE Market
FTSE Bursa Malaysia Palm Oil Plantation Index	Based on the FTSE Bursa Malaysia EMAS Index; comprises companies which earn a substantial proportion of revenue from palm oil activities
FTSE Bursa Malaysia EMAS Industry Indices	Comprise the constituents of the FTSE Bursa Malaysia EMAS Index and are categorised into 10 industry, 19 supersector, and 39 sector indices.
FTSE4Good Bursa Malaysia Index	Comprises the eligible companies from the universe of the top 200 companies in the FTSE Bursa Malaysia EMAS Index that meet a variety of environmental, social and governance criteria.