

AMBIF Elements in Malaysia

This chapter describes the key features of the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF), also known as AMBIF Elements, and puts into perspective the equivalent features of the domestic professional bond market in Malaysia.¹

Summary of AMBIF Elements

The Malaysian bond market is well established and the largest local currency bond market in the Association of Southeast Asian Nations (ASEAN); the *sukuk* (Islamic bond) market in Malaysia is the largest in the world. Table 1 identifies the features and practices of the domestic bond and *sukuk* markets in Malaysia that directly correspond with or are equivalent to the AMBIF Elements.

Description of AMBIF Elements and Equivalent Features in Malaysia

Domestic Settlement

AMBIF

AMBIF is aimed at supporting the domestic bond markets of ASEAN+3. To be recognized as a domestic bond or note, an AMBIF bond or note needs to be settled at the designated central securities depository (CSD). Hence, domestic settlement needs to be a key feature of an AMBIF bond or note.

In Malaysia

According to the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework, 2015, Part 3, Chapter 2, Section 2.22, all MYR-denominated private debt securities (PDS) or *sukuk* must be issued and/or tendered on the Fully Automated System for Issuing/Tendering (FAST), and settled in the Real-time Electronic Transfer of Funds and Securities System (RENTAS) unless an admission for listing and trading is sought on an exchange. PDS must be issued on a scripless basis and deposited into RENTAS, which is operated by MyClear—the CSD for bonds, notes, and *sukuk* traded over-the-counter (OTC), and a wholly-owned subsidiary of Bank Negara Malaysia (BNM).

In the context of AMBIF, RENTAS provides the following services:

- multi-currency funds and debt securities (government and corporate) settlement,
- CSD and paying agent for scripless debt securities, and
- MYR–USD Payment-versus-Payment and Delivery-versus-Payment settlement via USD Clearing House Automated Transfer System (CHATS).

¹ ASEAN+3 refers to the 10 members of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China, Japan, and the Republic of Korea.

Table 1: AMBIF Elements and Equivalents in Malaysia

AMBIF Elements	Brief Description	Equivalent in Malaysia
Domestic Settlement	Bonds and notes are settled at a national CSD in ASEAN+3 markets.	Settlement of OTC bonds, notes, and <i>sukuk</i> in the Real-time Electronic Transfer of Funds and Securities System (RENTAS)
Harmonized Documents for Submission (Single Submission Form)	A common approach is of submitting information as input for regulatory process(es) where approval or consent is required. Appropriate disclosure information along with ADRB recommendation needs to be included.	Since June 2015, the Lodge and Launch Framework no longer requires pre-issuance approval; SSF can serve as checklist and support submission of listing application for BMS Exempt Regime.
Registration or Profile Listing in ASEAN+3 (Place of Continuous Disclosure)	Information on bonds, notes, and issuers needs to be disclosed continuously in ASEAN+3 markets. Registration or a listing authority function is required to ensure continuous and quality disclosure.	Continuous disclosure obligations as per regulations, via FAST and/or trustee; Exempt Regime disclosure requirements under BMS listing rules
Currency	The denomination of an issue is generally expected to be in the domestic currency of each ASEAN+3 market.	Malaysian ringgit and US dollars; bonds, notes, and <i>sukuk</i> denominated in other currencies also issued in Malaysia
Scope of Issuers	Resident of ASEAN+3	Domestic and foreign issuers are treated the same under the Lodge and Launch Framework; BNM approves LCY issuances by foreign issuers; certain exemptions apply for FCY issuances.
Scope of Investors	Professional investors defined in accordance with applicable laws and regulations, or market practice, in each market in ASEAN+3.	Sophisticated Investors concept as per CMSA

ADRB = AMBIF Documentation Recommendation Board; AMBIF = ASEAN+3 Multi-Currency Bond Issuance Framework; ASEAN+3 = Association of Southeast Asian Nations plus the People's Republic of China, Japan, and the Republic of Korea; BMS = Bursa Malaysia Securities; BNM = Bank Negara Malaysia; CMSA = Capital Market and Services Act; CSD = central securities depository; FAST = Fully Automated System for Issuing/Tendering; FCY = foreign currency; LCY = local currency; OTC = over-the-counter; SC = Securities Commission Malaysia; SSF = Single Submission Form.

Source: ABMF SF1.

Harmonized Documents for Submission (Single Submission Form)

AMBIF

Based on the review of application forms for issuance approval, offering circulars, information memoranda, and program information formats in ASEAN+3, the core information was similar or comparable across markets. Hence, the Single Submission Form (SSF) that can be applied to all of the relevant regulatory processes for bond and note issuance across markets was proposed. The information contained in the SSF can be submitted to all relevant regulatory authorities and market institutions for relevant approvals or consent, or used in the context of the submission (e.g., as a checklist) in anticipation of an AMBIF bond or note issuance.

In Malaysia

The introduction of the Lodge and Launch Framework in June 2015 removed the need for pre-issuance approval by the Securities Commission Malaysia (SC), toward which the purpose of and information in the SSF has been geared.

Under the Lodge and Launch Framework, an issuer needs to lodge specific information and disclosure items, such as the principal terms and conditions (PTC), to the SC via the Principal Adviser prior to launching a bond, note, or *sukuk* issuance. (For more details on the Principal Adviser, please refer to Chapter II.) The information required is defined in the Lodgement Kit, which is a supplement to the Lodge and Launch Guidelines; the lodgement is to be done electronically via the SC's dedicated Online Submission System. (For more details, see Chapter III.) Some parts of the lodgement require the execution and scanning of specific forms, such as a prescribed Declaration by the Issuer.

From a practical perspective, in the context of the Lodge and Launch Framework, the SSF may be used as guidance or a checklist for the information stipulated in the Lodgement Kit and required for lodgement to the SC. This may be of particular practical value for those issuers intending to access a number of AMBIF markets at the same time, and thereby using the SSF for the submission to a number of other regulatory authorities to obtain issuance approval. It is the intention of ABMF to maintain the SSF as a living document, and to work toward a convergence of common issuance information requirements with the applicable regulatory processes in ASEAN+3.

In Malaysia, the SSF may also help to facilitate the submission of a Listing Application to Bursa Malaysia Securities (BMS) if a bond, note, or *sukuk* were intended to be listed for profiling under the Exempt Regime feature on BMS, which is described in more detail below.

Documents, application forms, and correspondence in English are accepted for official submissions.

Registration or Profile Listing in ASEAN+3 (Place of Continuous Disclosure)

AMBIF

Information on issuers, bonds, and notes needs to be disclosed continuously in ASEAN+3 markets. A registration or listing authority function to facilitate the continuous disclosure is required. This can ensure the quality of disclosure and help create a well-organized market for AMBIF issuances with transparency and a quality of information that would differentiate AMBIF issuances from ordinary private placements for which information is often neither available nor guaranteed. Owing to this important feature, an AMBIF secondary market is expected to emerge as the number of issuances increases.

A profile listing is a listing without trading on an exchange. The objective of the listing is to make bonds and notes visible and more information available to investors via a recognized listing place, particularly those investors with more restrictive mandates, such as mutual and pension funds. A profile listing at a designated listing place can ensure the flow of continuous disclosure information and possibly even reference pricing in some markets.

In Malaysia

Lodgement of the issuance documentation and initial disclosure items with the SC, and the regulatory requirement for an issuer to provide regular updates on financial information to an appointed trustee and via FAST, together with the added feature of regular price determination by the Bond Pricing Agency Malaysia (BPAM), form the basis of the available disclosure for offers aimed at Sophisticated Investors. In addition, the PTC are available on the SC website, as well as via BPAM, and issuers must provide a pricing supplement for each drawdown (new issuance) under a debt or *sukuk* program.

To complement these requirements with a mandated continuous disclosure regime, BMS provides the option for both listed and nonlisted issuers to list PDS and *sukuk* for profiling under its Exempt Regime. PDS or *sukuk* to be listed under the Exempt Regime will not be quoted or traded on BMS. The Exempt Regime, provided for under Chapter 4B of the BMS Listing Rules, has been available since December 2008 under a government initiative that targets the listing of PDS and *sukuk* in conjunction with the development of the Malaysian bond market and the Malaysian International Islamic Finance Centre.

The Exempt Regime is specifically for issuers intending to list PDS or *sukuk* to obtain listing status and for profiling purposes, and where the targeted investor group comprises Sophisticated Investors, as defined under the Capital Market and Services Act, 2007 (CMSA). PDS or *sukuk* that are profile listed on the BMS Exempt Regime may be denominated in a foreign currency (FCY) but must have an original maturity of more than 1 year. The trading of PDS and *sukuk* under the Exempt Regime takes place in the OTC market and is inaccessible to retail investors.

In case of a profile listing under the BMS Exempt Regime, the issuer must observe the continuous disclosure requirements for material information specified in the BMS Listing Rules, in addition to regulatory disclosure requirements. BMS acts as listing authority for all its listings and will take enforcement action in case of a breach.

At the same time, the issuer may choose to opt for a profile listing in another regional market in order to achieve listing status closer to the intended investor universe. This may be a consideration, particularly if bonds, notes, or *sukuk* issued in Malaysia are to be marketed and offered to professional investors in other ASEAN+3 markets. In such cases, the professional investors would be able to obtain continuous disclosure information via the listing place and/or that market's mechanisms for information dissemination.

Currency

AMBIF

In the context of AMBIF, the denomination of an issue is generally expected to be in the domestic currency of each ASEAN+3 market. But this does not exclude the possibility of issuing in other currencies if market practice regularly supports these other currencies, and the relevant domestic currency or cash clearing capabilities exist. At this stage, US dollars, Japanese yen, and offshore Chinese renminbi are the currencies other than domestic currencies in which bonds and notes tend to be issued in ASEAN+3 markets.

In Malaysia

In addition to settlement for bonds, notes, and *sukuk* issued in Malaysian ringgit and offshore Chinese renminbi, RENTAS is also able to settle bonds, notes, and *sukuk* denominated in US dollars through USD CHATS. A number of FCY-denominated bonds, notes, and *sukuk* have been issued in the Malaysian market.

Scope of Issuers

AMBIF

As AMBIF is aimed at supporting the development of domestic bond markets in the region and promoting the intraregional recycling of funds, an issuer needs to be a resident of an ASEAN+3 market.

In Malaysia

The SC does not distinguish between resident and nonresident issuers of private debt securities in the applicable Lodge and Launch Guidelines, or between different types of corporate issuers. All issuers are principally subject to the same requirements and obligations under the Lodge and Launch Guidelines, and other applicable regulations. At the same time, some concessions exist for FCY-denominated issuances, and exemptions are provided for multilateral financial institutions and multilateral development banks.

Nonresident issuers issuing MYR-denominated bonds, notes, or *sukuk*, and resident issuers issuing FCY-denominated bonds, notes, or *sukuk* are subject to the Foreign Exchange Administration (FEA) rules administered by BNM.

Details of the related approvals are provided in Chapter III.

Scope of Investors

AMBIF

Professional investors are defined in accordance with regulations and/or market practice in each market in ASEAN+3. Some jurisdictions have a clear definition of professional investors while other jurisdictions may need to establish the concept through agreements.

Professional investors are institutions defined by law and licensed or otherwise registered with regulators by law in their economy of domicile and, hence, are subject to governance and inspection based on securities market and/or prudential regulations. In addition, most of them are also subject to oversight as well as professional conduct and best practice rules by a self-regulatory organization, such as an exchange or a market association.

In Malaysia

The issuance of bonds, notes, and *sukuk* to Sophisticated Investors—under Schedules 6, 7, and 9 of the CMSA—constitutes the professional bond market in Malaysia. The descriptions of the regulatory processes in Chapter III are for the issuance of bonds, notes, and *sukuk* offered to Sophisticated Investors only.

As promulgated in the Lodge and Launch Guidelines issued in March 2015, Sophisticated Investors refer to any person specified under Schedule 1 of the Guidelines on Sales Practices of Unlisted Capital Market Products, 2013. “Sophisticated Investors” is a collective term and includes

1. High Net Worth Individuals,
2. High Net Worth Entities, and
3. Accredited Investors.

Accredited Investors are further defined as

1. Bank Negara Malaysia;
2. a holder of a Capital Markets Services License;
3. an executive director or chief executive officer of a holder of a Capital Markets Services License;
4. a unit trust scheme or a prescribed investment scheme;
5. a closed-end fund approved by the SC;
6. a licensed institution as defined in the Financial Services Act, 2013 or an Islamic bank as defined in the Islamic Financial Services Act, 2013;

7. a Labuan bank as defined under the Labuan Financial Services and Securities Act, 2010;
8. an insurance company registered under the Insurance Act, 1996;
9. an insurance licensee licensed under the Labuan Financial Services and Securities Act, 2010;
10. a *takaful* (Islamic insurance) licensee licensed under the Labuan Islamic Financial Services and Securities Act, 2010;
11. a *takaful* operator registered under the Takaful Act, 1984; and
12. a private retirement scheme as defined in the CMSA.

There is no distinction in the CMSA or the Lodge and Launch Guidelines between domestic and foreign investors. At the same time, foreign investors who wish to invest in the Malaysian market tend to fall under the definitions and provisions for High Net Worth Entities and High Net Worth Individuals. There are many foreign institutional investors already investing in Malaysia and holding their assets with domestic custodian banks.

Professional investors who are residents in Malaysia may invest in overseas markets. But investments in FCY-denominated assets abroad by residents are subject to the prevailing FEA rules, and subject to review and approval by BNM.