New Framework For Listings And Equity Fund-Raisings

ACE Market Technical Briefing

Azman Ahmad
Securities Commission Malaysia

10 July 2009
Outline

- New Board Structure and New Regulatory Approaches
- New Guidelines and Submission Arrangements
"... will combine the Main and Second Boards to establish a Unified Board for more established companies with strong track records…"

"... The Unified Board will have uniform listing requirements, and comprehensive disclosure-based regulation with easy entry and fast removal…"

"...the MESDAQ Market will be revamped to allow relatively smaller companies to access equity market at an earlier stage of their lifecycle…"

"... For the revamped MESDAQ, the listing of emerging companies will be sponsor driven…"

Prime Minister of Malaysia
Invest Malaysia 2008 Conference
25 March 2008

Key Points

- Main and Second Boards to merge into a Unified Board
- MESDAQ Market to be transformed into an alternative market
- New approaches to regulating listings and fundraisings
Robust engagement process...

**Establishment of Industry Working Group**
- 11 practitioners and experts from a broad segment of the capital market

**Undertook extensive research, study visits and benchmarking exercises;**
- Focus group discussions and brainstorming
  - Parties include MIBA, MVCA, FPLC, MIA

**Public and industry consultation**
- Extended public consultation
- Face-to-face consultation with various industry groups

**Continuous engagement from the commencement of project**

Over 300 meetings undertaken

Numerous feedback received
Launched on 8 May 2009...

- New board structure
- New regulatory approaches
- New guidelines and listing rules

Effective: 3 August 2009
Rationale and benefits...

<table>
<thead>
<tr>
<th>Staying competitive in a progressive market</th>
<th>Streamlined structure for established and emerging companies to raise capital</th>
<th>Fundamental shift to a market-based regulatory approach</th>
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</thead>
</table>
| • Enhanced competitive positioning – preferred listing and fund-raising destination | • Clear demarcation of what issuers and investors want  
  – Main Market for established companies, with clear listing requirements  
  – ACE Market to facilitate early access for capital raising for emerging companies  
  – Different markets catering to different investors’ risk appetites | • Greater empowerment to the market with emphasis on market and self discipline  
• Streamlined regulatory process for better efficiency  
  – reduced regulatory cost & faster time to market  
• Issuers have clearer expectations of the application for fund raising |

Allowing efficient access to capital and investments, for both issuers & investors
New Board Structure for Bursa

**Current Structure**

1. **Main Board**
   - **Traditional sector-focus**
     - Large cap companies

2. **Second Board**
   - **Traditional sector-focus**
     - Medium cap companies

3. **MESDAQ**
   - **High-tech/ growth sector-focus**
     - High-tech/ growth companies

**New Structure**

A. **MAIN Market**
   - Prime market for established companies

B. **ACE Market**
   - Alternative market for all companies/ sectors
New Regulatory Approaches - Main Market

Type of Proposals

Competent Authority

Approvals Required

New Listings

Regulatory approval under s212 CMSA and Prospectus registration under s232/ s237 CMSA

Principal Advisers

Approval for listing and quotation of securities

Post Listings

Main Market
# New Framework for Main Market - SC

## Current Framework

<table>
<thead>
<tr>
<th>s212 CMSA (Regulatory Approval)</th>
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<tbody>
<tr>
<td>• IPOs</td>
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<tr>
<td>• Acquisitions &amp; disposals</td>
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<tr>
<td>resulting in significant change</td>
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<td>in business direction or policy</td>
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<tr>
<td>of a listed corporation</td>
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<td>• Secondary fund raisings</td>
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## New Framework

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<td>• Cross &amp; secondary listings</td>
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<td>• Transfer of listings to Main</td>
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## Focus Areas

- Compliance with minimum requirements
- **Viability assessment**
- Public Interest
- Corporate Governance
- Conflict of Interest
- Valuation of assets
- Adequacy of disclosures
- Cross & secondary listings
- Transfer of listings to Main Market
- IPOs
- Acquisitions resulting in significant change in business direction or policy of a listed corporation
- Secondary fund raisings
- Secondary fund raisings
- Unlisted companies
- IPOs and public offerings
- Rights Issues
## New Framework for Main Market - Bursa

### Current Framework
- Bonus Issue, ESOS, share buybacks
- RPTs
- Approval of Circulars
- Approval of listing and quotation for securities
- Continuing listing obligations of PLC
- Independent directors
- Audit Committee

### Focus Areas
- Procedural compliance
- Public spread
- Adequacy of disclosures

### New Framework
- Bonus Issue, ESOS, share buybacks
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**NEW**
- Acquisitions and disposals
- Secondary fund raising e.g. rights and bonus issues which are not part of an IPO proposal, private placements and restricted issue

### Focus Areas
- Procedural compliance
- Public spread
- Adequacy of disclosures
New Regulatory Approaches - ACE Market

ACE Market -> Sponsors -> New Listings

Type of Proposals
Competent Authority
Approvals Required

New Listings -> Post Listings

Prospectus registration under s232/s237 CMSA
Approval for listing and quotation of securities
New Framework for ACE Market - SC

**Current Framework**

- **s212 CMSA (Regulatory Approval)**
  - IPOs
  - Acquisitions and disposals resulting in significant change in business direction or policy of a listed corporation
  - Secondary fund raisings

- **s232 and s237 CMSA (Prospectus registration)**
  - IPOs and public offerings
  - Rights Issues

**Focus Areas**
- Compliance with minimum requirements
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- Public Interest
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- Conflict of Interest
- Valuation of assets
- Adequacy of disclosures

**New Framework**

- **No s212 CMSA approval with Sponsors complementing gate keeping role**

- **s232 and s237 CMSA (Prospectus registration)**
  - IPOs and public offerings
  - Rights Issues

**Focus Areas**
- Public Interest
- Corporate Governance
- Conflict of Interest
- Adequacy of disclosures
## New Framework for ACE Market - Bursa

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**NEW**
- Acquisitions and disposals
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### Focus Areas
- Compliance with minimum requirements
- Procedural compliance
- Public spread
- Adequacy of disclosures
• New Board Structure and New Regulatory Approaches

• New Guidelines and Submission Arrangements
5 new/revamped SC guidelines...

**New Guidelines**

**Equity Guidelines** [Slide 24]
- Stipulates listing requirements on the Main Market and issuance of equity in a fund-raising exercise

**Prospectus Guidelines** [Slide 25]
- Stipulates disclosure requirements for the prospectus

**Principal Adviser Guidelines** [Slide 26]
- Stipulates advisers who can advise and submit corporate proposals

**Asset Valuation Guidelines** [Slide 27]
- Stipulates standards of asset valuation in corporate proposals

**Structured Warrants Guidelines** [Slide 28]
- Stipulates requirements for issuance of structured warrants
**Equity Guidelines - Major criteria adopted for new listing** (Main Market)

### Quantitative Requirements

#### Profit Track Record Test
- Aggregate PAT over 3-5 FYs: **Min RM20 mil**
- Most recent PAT: **Min RM6 mil**
- Profit must be uninterrupted

#### Market Capitalisation Test
- Market capitalisation of min RM500 mil (no profit requirement)
- At least 1 full year operating revenue

#### Infrastructure Project Company (IPC) Test
- Remaining concession or license $\geq$ 15 yrs
- Project costs $\geq$ RM500 mil
- Shorter remaining concession period allowed if the IPC has a profit track record

### Other Requirements
- Minimum offer to the general public
- Minimum issue price of RM0.50
- Moratorium on promoters shareholdings for 6 months

### Flexibilities:
- No minimum paid-up capital
- No mandatory underwriting
- No additional requirements for specific companies
- IPCs with 2 full FY of revenue can do offer for sale
## Equity Guidelines - Major criteria adopted for other proposals requiring SC’s approval (Main Market)

<table>
<thead>
<tr>
<th>Quantitative and Other Requirements</th>
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<tbody>
<tr>
<td><strong>Reverse Take-Over/ Back-Door Listing</strong></td>
</tr>
<tr>
<td>• Aggregate PAT over 3-5 FYs        Min RM20 mil</td>
</tr>
<tr>
<td>• Most recent PAT                   Min RM6 mil</td>
</tr>
<tr>
<td>• Allows profit to be met by enlarged group</td>
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<tr>
<td>• Profits need not be uninterrupted</td>
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<table>
<thead>
<tr>
<th><strong>Secondary and Cross Listings</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• No quantitative requirement</td>
</tr>
<tr>
<td>• Only allowed for corporations with primary listings on the Main Board of the foreign stock exchange</td>
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<table>
<thead>
<tr>
<th><strong>Transfer from ACE Market</strong></th>
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<tbody>
<tr>
<td>• Compliance with either Profit Track Record test, Market Capitalisation test or IPC test</td>
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</tbody>
</table>
# Main Market Submission Process (IPOs/ RTOs)

**SC**

- Pre-submission consultation
- Submission of valuation report to AVA
- Submission to SC under S.212 & S.232 CMSA
  - Prospectus public exposure period begins
  - Review of application & prospectus / circular begins
- Prospectus public exposure ends
  - SC issues queries and suggestions for disclosure enhancements
- Adviser reverts with reply to queries, replacement pages for prospectus / circular
- SC issues decision letter on approval for IPO / RTO and approval-in-principle for prospectus registration / circular
- Registration of prospectus
- Issuance of prospectus / offer period begins

**Bursa**

- Application can be made to Bursa for Initial Listing (no more separate application for listing and quotation) at any time. Documents required:
  - Application form
  - Copy of the prospectus
  - Declarations / undertaken by applicant & adviser

Processing timeframe: 6 market days

<table>
<thead>
<tr>
<th>T (working/market days)</th>
<th>0</th>
<th>15</th>
<th>40</th>
<th>53</th>
<th>60</th>
<th>61</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last date for listing application to be approved</td>
<td>66</td>
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</tbody>
</table>
Listing on ACE Market

Requirements

• All business sectors, no longer confined to technology and high growth sectors
• No requirement on revenue, operating record and profit
• Must apply for admission through a Sponsor
• Moratorium on promoters shareholdings:
  – 1st 6 months entire shareholdings, subsequently 45% of nominal paid-up capital, selling max 1/3 p.a. straight line basis
  – If yet to generate revenue, maintain 45% of nominal paid-up capital under moratorium until 1 FY of audited operating revenue
• Removal of minimum issue price of RM0.50 requirement
• Allow offer for sale if company has operating profit
• Offer of securities to general public made optional
• No mandatory underwriting arrangements
# ACE Market Submission Process (IPOs)

<table>
<thead>
<tr>
<th>SC</th>
<th>Bursa</th>
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</thead>
</table>
| • Submission to SC under S.232 CMSA  
• Prospectus public exposure period begins  
• Review of prospectus begins | • Pre-submission consultation |
| • SC issues queries and suggestions for disclosure enhancements | |
| • Prospectus public exposure ends | |
| • Adviser reverts with reply to queries, replacement pages for prospectus | |
| • SC issues approval-in-principle for prospectus registration | |
| • Registration of prospectus | |
| • Issuance of prospectus / offer period begins | |

- Issuance of prospectus / offer period begins
- Submission to SC under S.232 CMSA
- Prospectus public exposure period begins
- Review of prospectus begins
- SC issues queries and suggestions for disclosure enhancements
- Prospectus public exposure ends
- Adviser reverts with reply to queries, replacement pages for prospectus
- SC issues approval-in-principle for prospectus registration
- Registration of prospectus
- Issuance of prospectus / offer period begins

Application can be made to Bursa for Initial Listing (no more separate application for listing and quotation) at any time. Documents required:
- Application form
- Copy of the prospectus
- Declarations / undertaken by applicant & adviser

Processing timeframe: 6 market days

Last date for listing application to be approved
## ACE Market Submission Process (Transfers to Main Market)

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</tr>
<tr>
<td>Prospectus public exposure period begins</td>
<td>- Application form</td>
</tr>
<tr>
<td>Review of application &amp; prospectus/ introductory document begins</td>
<td>- Copy of the prospectus/ intro document</td>
</tr>
<tr>
<td>Prospectus public exposure ends</td>
<td>- Declarations / undertaken by applicant &amp; adviser</td>
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<td>Adviser reverts with reply to queries, replacement pages for prospectus / introductory document</td>
<td></td>
</tr>
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<td>SC issues decision letter on approval for transfer and approval-in-principle for prospectus registration / intro document</td>
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<tr>
<td>Issuance of prospectus / introductory document</td>
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</table>

T (working/market days)
## Transitional Arrangements

<table>
<thead>
<tr>
<th>IPO</th>
<th>Prior to 3 August 2009</th>
<th>3 August 2009 onwards</th>
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<tbody>
<tr>
<td>• SC approval required for all IPOs under S.212 CMSA</td>
<td>• SC approval under S.212 CMSA required for Main Market IPOs only</td>
<td></td>
</tr>
<tr>
<td>• May apply for the new flexibilities</td>
<td>• If company has received SC approval but yet to issue prospectus, prospectus must comply with new guidelines (registration – still 14 working days)</td>
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</tr>
<tr>
<td>• Draft prospectus may comply with content requirement of new guidelines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• <strong>ACE Market - For cases submitted, must issue prospectus by end 2009</strong></td>
<td></td>
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| Secondary fund-raisings | | |
|------------------------|------------------------|
| • SC approval required as normal | • If approval lapses, implement under new framework after 3 August 2009 | |
| | • Any variation to terms of SC approved cases to be submitted to the SC | |

| Structured Warrants | | |
|---------------------|------------------------|
| • 21 working days for SC to approve initial issuance, 14 days registration for base prospectus | • New instruments may be introduced after 3 August 2009 (i.e. put warrants) | |
| • 4 working days to approve and register term sheet | • SC would only register the base prospectus and term sheets | |
| • Proposals to comply with new Structured Warrants Guidelines | • If in full compliance with Prospectus Guidelines – Structured Warrants, waiver fees of RM3,500 do not apply for registration of base prospectus and term sheets | |
| • Base prospectus must comply with SC’s Structured Warrants Guidelines | | |
Thank You

For more information, contact:

SECURITIES COMMISSION MALAYSIA
3, Persiaran Bukit Kiara, Bukit Kiara,
50490 Kuala Lumpur, Malaysia.
T: +603-6204 8000
F: +603-6201 5213
www.sc.com.my
Key Requirements

- Raise minimum RM150 million at IPO
- Minimum 90% of IPO proceeds to be deposited in a trust account
- At least 80% of amount in trust account to be used for qualifying acquisition
- At least 10% in the SPAC held by management team upon IPO with embedded restriction on voting and participation in liquidation distribution
- SPAC to complete qualifying acquisition within 36 months from the close of IPO
- Moratorium on entire shareholdings of management team where shares are to be released in stages within 2 years after completion of a qualifying acquisition
- SPAC be required to abort the proposed qualifying acquisition if more than 25% of its public shareholders vote against the qualifying acquisition
## Prospectus Guidelines

### Key Changes

- Refinement of related-party transactions/ conflict of interest disclosure requirement
- Utilisation of proceeds – more detailed disclosures
- New section on specific requirements for structured warrants
- New chapter on specific requirements for SPACs
- Detailed description on history of business with examples
- History on share capital for the last 3 years only
- Table of income statement for the past 3 to 5 financial years, depending on the length of the profit track record used by the corporation to qualify for listing
Key Changes

Principal Advisers seeking to undertake specific corporate proposals must satisfy the following requirements:

- Fall within the category of eligible principal advisers of the guidelines; and
- Have at least 2 senior personnel (Qualified Senior Personnel) with the following competency and experience:
  - 7 years of relevant corporate finance experience; and
  - In the 5 years immediately preceding the senior personnel being designated as a Qualified Senior Personnel, he must have played a substantial role in the engagement team responsible for advising in at least 3 of the following proposals:
    - IPOs;
    - Significant acquisitions; or
    - Regularisation plans undertaken by PN17 and GN3 companies.
Asset Valuation Guidelines

Key Changes

- **Enhanced requirements on valuation firm making submissions**
  - Property assets must be valued by a firm registered with the Board of Valuers with the following requirements:
    - Has at least one equity owner at head office with minimum of 7 years’ post registration experience;
    - Has not been issued with more than two sanctions by the SC and/or Bursa in the past three years; and
    - Has sufficient internal controls and procedures i.e. firm conducts necessary due diligence on all valuation reports prepared, has an established peer review process and head office has an oversight over all its branches.

- **Bar raised for valuers carrying out valuations**
  - Independent valuer must, among others, possess a minimum of 5 years’ post-registration experience

- **Higher disclosure requirements in valuation certificates and reports**
  - Valuation parameters and their justification to be disclosed in valuation certificates
New Flexibilities

• Issuers of structured warrants allowed to undertake market-making for their structured warrants issues
  – Facilitate the movement of prices from one level to another
  – Promotes investor confidence as there is immediacy
  – Providing liquidity: buying when there are sellers and selling when there are buyers

• Issuance of warrants of local and foreign Exchange Traded Funds
  - Provide investors with efficient access to alternative asset classes
  - Broaden the spectrum of investment opportunities