



Crowe Chat

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Changes in the Enhanced IPO Framework for Main Market

What's new?

1. Introduction of mandatory holistic consultation

Introduction

The Securities Commission Malaysia (“SC”) has introduced an enhanced initial public offering (“IPO”) framework which will take effect on 1 January 2021.

Current:

- a) Consultation with the SC is voluntary and is carried out when the Principal Adviser (“PA”) or other professionals wish to seek clarification from the SC on certain issues. The onus is on the PA and applicant to decide whether or not to embark on the consultation.
- b) Any issue with the IPO may only be identified late in the IPO process and this can cause delays.



1. Introduction of mandatory holistic consultation (cont'd)



Effective 1 January 2021:

Mandatory pre-submission holistic consultation between the SC and all key stakeholders including the IPO applicant, PA, legal advisers, reporting accountants and valuers.

Implications

- a) This consultation process allows a closer scrutiny of the applicant's suitability for IPO by all parties (rather than just the PA) ahead of the IPO submission process.
- b) It also enables a detailed discussion on issues which may affect the applicant's IPO prior to prospectus submission – be it regulatory, financial, governance or operational issues. With the mandatory consultation, any issues with the IPO can be identified earlier and addressed. This will result in a more efficient process.

2. Longer exposure period for draft prospectus

Current:

The current exposure period for draft prospectuses is 15 days.

Effective 1 January 2021:

The draft prospectuses' market exposure will be extended until the date of registration of the prospectus.

Implications:

- a) The prolonged exposure period will be good as it will offer investors more time to review prospectuses from bigger companies which are likely to be more complicated. The longer timeline will also allow the public more time and opportunity to comment and provide feedback.
- b) This also complements the effort to safeguard the quality of prospectuses submitted to the SC and subsequently, distributed to the general public.



3. Liberalise Principal Adviser Regime

Current:

Approved Principal Advisers (“APA”) which are corporate finance advisers responsible for making submissions to the SC for corporate proposals, must have at least two senior personnel (Qualified Senior Personnel) with the following competency and experience:

- a) Seven (7) years of relevant corporate finance experience; and
- b) In the five (5) years immediately preceding the senior personnel being designated as a Qualified Senior Personnel (“QSP”), he must have played a substantial role in the engagement team responsible for advising in at least three (3) of the following proposals:
 - i) IPOs
 - ii) Significant acquisitions; or
 - iii) Regularisation plans undertaken by PN17 and GN3 companies



3. Liberalise Principal Adviser Regime (cont'd)

Effective 1 January 2021:

In future, Recognised Principal Advisers (“RPA”) will be required to have at least 1 Qualified Person (“QP”). The criteria for qualifying as a QP have also been amended as follows:

- a) be a Capital Market Services Representative License (“CMSRL”) holder or a full-time employee of registered persons (“ERP”) for the regulated activity of advising on corporate finance;
- b) has at a minimum of seven (7) years of direct corporate finance experience in the nine (9) years preceding his appointment;
- c) in the five (5) years immediately preceding his appointment, completed one (1) of the following:
 - i. An IPO for the Main Market or the ACE Market of Bursa Securities;
 - ii. An acquisition or disposal of assets which results in a significant change in business direction or policy of a Main Market listed corporation on Bursa Securities, except for assets disposal that is not part of any other proposal which requires SC’s approval; or
 - iii. An acquisition or disposal of assets which results in a significant change in business direction or policy of an ACE Market listed corporation on Bursa Securities that is carried out in conjunction with a transfer of listing.

3. Liberalised Principal Adviser Regime (cont'd)

Implications:

- a) This change ensures a sufficiently large pool of APA and QSP talents in the industry to cope with a higher number of corporate exercises in line with the country's aspiration to continue to grow the capital market.
- b) The main responsibilities fall on the RPA to ensure integrity, quality of submission and confidentiality of records and information – guided by the SC's *Guidelines on Submission of Corporate and Capital Market Product Proposals* effective 1 January 2021.
- c) The obligation is on the RPA to perform sufficient due diligence on the information submitted by all parties to the IPO. In turn, the major players of the capital market are now responsible for coming up with the guidelines and developing best practices under the supervision of the SC, and these should be benchmarked against global practices of developed markets.
- d) The SC's role would be that of a regulator to provide the check and balance to ensure transparency and integrity of the market.



4. Conclusion

This revised framework comes at a very timely moment, as we are gearing to compete with the global capital markets. In growing and adapting to changes in the marketplace, enhancement of the framework is simply part of the evolutionary process.

Some of the more pressing issues, such as the quality of the IPO applicants, for example, will be addressed by the new framework as applicants will be required to comply with the more stringent fit and proper criteria even before the consultation process takes place.

Hence, we see SC's revised framework as a positive step in the right direction that will not only address many of the current issues faced by companies who want to go for listing, but also make the IPO process more efficient.





Start the conversation with us



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