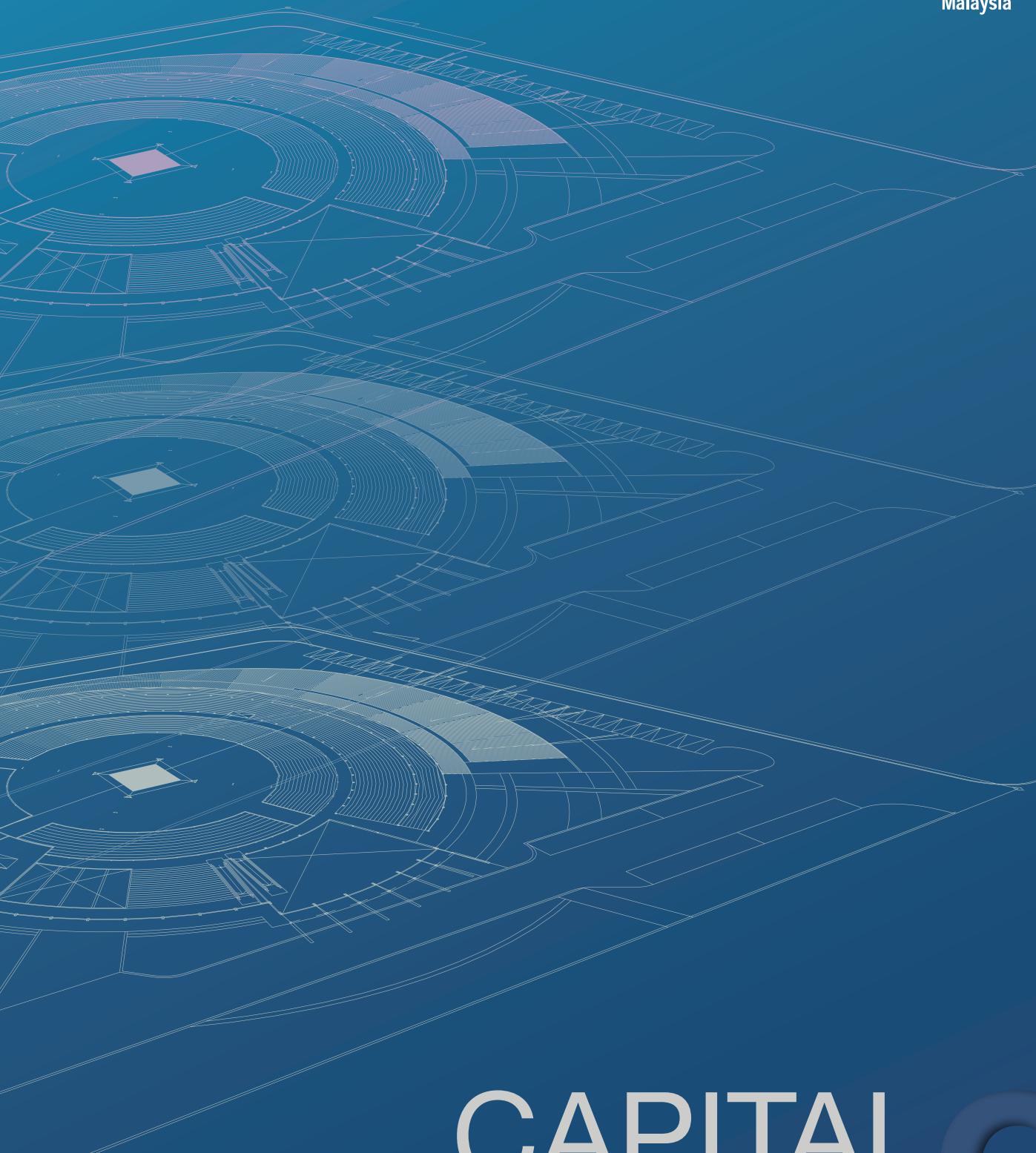




**Suruhanjaya Sekuriti**  
Securities Commission  
Malaysia



# CAPITAL MARKET 3 MASTERPLAN

*The cover design for the Securities Commission Malaysia's third Capital Market Masterplan depicts a mechanical structure, which represents the construct of the Masterplan that guides the capital market forward for the next five years. The tricoloured symmetrical structure symbolises the various capital market stakeholders coming together to build a multi-layered market that is relevant, efficient and diversified to meet the needs of Malaysia and its people.*

# CAPITAL MARKET MASTERPLAN 2021-2025



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## **DISCLAIMER**

This book aims to provide a general understanding of the subject and is not an exhaustive write-up. It is not intended to be a substitute for legal advice nor does it diminish any duty (statutory or otherwise) that may be applicable to any person under existing laws.



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# FOREWORD

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**WITH THE CAPITAL MARKET MASTERPLAN 3, I AM CONFIDENT THAT THE CAPITAL MARKET WILL CONTINUE TO PLAY AN IMPORTANT ROLE IN THE MALAYSIAN ECONOMY, ENABLING GREATER PROSPERITY, ENCOURAGING INCLUSIVITY, AND SUPPORTING THE SUSTAINABILITY OF THE MALAYSIAN ECONOMY.**

///



Over the next decade, Malaysia will transition into a high-income nation, even as geopolitical factors and the global response to the pandemic create headwinds and disruption. However, income is only one measure of a developed economy; Malaysia also needs to ensure that its economic growth is sustainable and shared equitably by all.

The Government announced our 6R National Economic Recovery Strategy in May 2020, as the world was being roiled by the pandemic, impacting supply chains and markets equally. To date, the actual and potential impacts are still being calibrated. Against this backdrop, the first five stages of the 6R strategy have provided much support to all Malaysians and stabilised the economy against the fallout from the pandemic. With the vaccine rollout underway, we will soon enter the final stage of the 6R strategy, that is, Reform.

The *12<sup>th</sup> Malaysian Plan*, which will be launched later this year, will set the agenda for the longer-term reforms of the Malaysian economy that will underpin the next stage of our economic development. The aim is to drive economic growth and at the same time, ensure that the nation's prosperity is inclusive, for all Malaysians today, and sustainable for future generations. The priorities of the *12<sup>th</sup> Malaysian Plan* would include creating a conducive environment for domestic businesses, accelerating the shift towards a greener economy, developing industries with high value-add to the economy, eradicating poverty and reducing socio-economic inequality.

Within this context, the capital market plays an important role to support the structural upgrade of the economy and help inculcate a more inclusive society. The *Capital Market Masterplan 3* (CMP3) paves the way for the wider population to participate in the sustainable and productive growth of the nation, and the broader accumulation of wealth for all in the process.

As we transition towards becoming a more developed nation, Malaysia will need to cultivate more domestic firms in the frontier sectors of the rapidly changing contours of the global economy, in order to capture economic growth. The *Dana Penjana Nasional Programme* was set up for this purpose to spur innovation and provide risk capital for domestic entrepreneurs. Strategies outlined in the CMP3 will address this priority more comprehensively, enabling more funding avenues for entrepreneurs and small-and-medium business owners to grow their companies into competitive firms in the global economy.

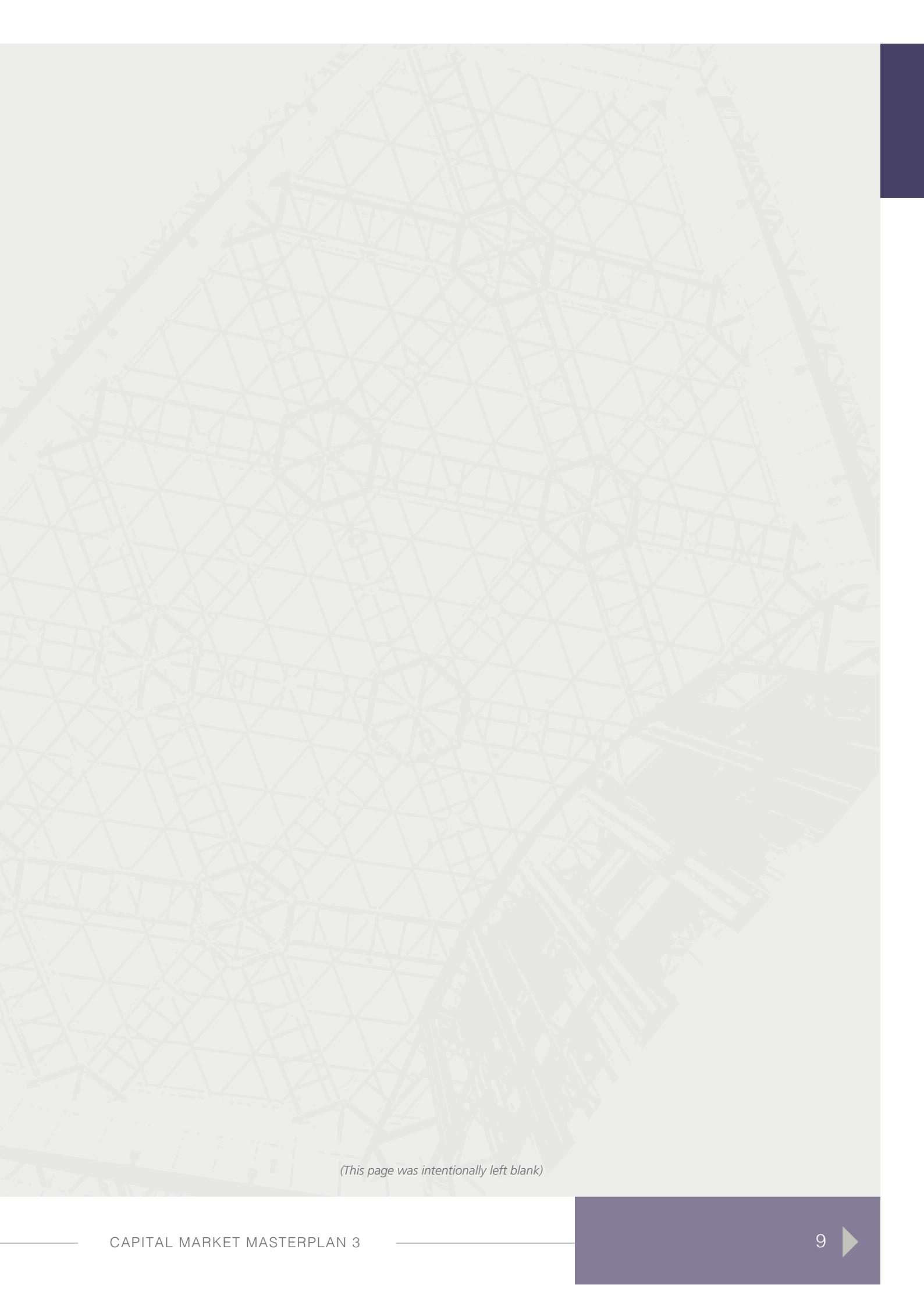
The digital economy is another key area of growth for the country moving forward. The *Malaysia Digital Economic Blueprint* (MyDIGITAL) was launched earlier in 2021 to catalyse the growth of our digital economy and enable greater digital inclusiveness across the nation. This agenda will be further supported by the CMP3, which encourages greater digital adoption in the capital market. Digital adoption on a wider scale can enable businesses to raise capital at lower cost, and at the same time, empower all Malaysians to invest for their future.

The CMP3 also supports the country's commitment to the United Nation Sustainable Development Goals (UN SDGs) and the *Paris Agreement*. Over the next five years, it is envisaged that the ever increasing amount of capital will be mobilised to enable the transition towards a low-carbon economy, and to fund projects that create a positive impact on society and the climate.

Finally, I would like to express my deepest appreciation to the Securities Commission Malaysia (SC) for the tremendous effort put in to develop the CMP3 under prevailing circumstances. Under the CMP2, the capital market expanded and diversified its capacity for capital formation, while putting in place effective and proportionate regulation to preserve the integrity of the market. With the CMP3, I am confident that the capital market will continue to play an important role in the Malaysian economy, enabling greater prosperity, encouraging inclusivity, and supporting the sustainability of the Malaysian economy.



**YB SENATOR TENGKU DATUK SERI UTAMA ZAFRUL TENGKU ABDUL AZIZ**  
Minister of Finance, Malaysia  
September 2021



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# INTRODUCTORY REMARKS



**THE CAPITAL MARKET  
MASTERPLAN 3 ASPIRES  
FOR A CAPITAL MARKET  
AND SUPPORTIVE  
ECOSYSTEM THAT WORKS  
FOR THE COLLECTIVE  
BENEFIT OF ALL.**



The next chapter of Malaysia's capital market development offers much promise, but also, its own unique set of challenges. As the Malay proverb goes, "*Dayung sudah di tangan, perahu sudah di air*"<sup>1</sup>, the requisite building blocks are in place, provided for by successive master plans. However, the global and domestic landscape is fast-evolving, driven by multiple, and occasionally, opposing forces of change.

There are many consequential structural adjustments occurring in economies, societies and markets; many of which have heightened uncertainties and introduced new risks. Some are highly visible such as rapid digital adoption, while other deeper and more complex issues with numerous socio-economic dimensions have yet to fully manifest. The confluence of these different drivers will impact growth as well as policies in the foreseeable future.

In terms of the domestic environment, Malaysia is transitioning to become a high-income economy. While the present composition of the economy has served the country well, new sectors and growth drivers will be crucial for the next stage of development. Increasingly, it will also be the quality and type of growth that matters. This requires a more vibrant business environment, one that encourages innovation and entrepreneurial risk-taking, coupled with the acumen and vision to succeed not just domestically, but regionally and globally as well.

Equally important as we move into the next phase of development is to ensure that this growth is inclusive, with economic gains shared more broadly across all Malaysians. Well-targeted interventions are necessary to mould our capital market to enable broader participation in the capital formation process, facilitate more inclusive and effective mobilisation of savings, as well as embed the culture of good corporate governance (CG).

In order to rise to this challenge, the tone and future direction for our capital market and its participants must be set – to offer a guiding light. In sum, the CMP3 aspires for a capital market and a supportive ecosystem that works for the collective benefit of all.

Strategic initiatives over the next five years will be guided by six key development and regulatory priorities. These strategic thrusts focus on catalysing competitive growth, empowering investors for a better future and shaping a stakeholder economy, while simultaneously embedding shared accountability, prioritising efficiency and outcomes, as well as embracing technology. Overall, these priorities are aimed at ensuring that the capital market achieves three desired outcomes.

<sup>1</sup> In English translated as "The paddle is in your hand, the canoe is in the water".

Firstly, the capital market must continuously innovate to remain **relevant**, and better serve the economy and investors of the future. The dynamism of nimble yet rapidly scalable business models in addition to well-established public companies will be key to not only lift incomes and drive prosperity, but ensure the nation's growth trajectory is sustainable and equitable. Alongside the public markets, private markets must also grow in tandem to support these businesses. This calls for intermediaries and service providers to be responsive to the needs of tomorrow's businesses and investors, in order to tailor the appropriate market solutions for them to prosper and grow.

Secondly, the capital market should also lead in terms of providing **efficient** and reliable infrastructure and services. More seamless integration and automation across the market value chain will raise the bar on the fundraising and investment experience. The provision of real-time disclosures and information, along with a more bespoke investment approach across products and market segments, will also serve to expand investment capabilities and literacy. This speaks to technology and cost-effective methods in upgrading processes and addressing impediments, among others. Complementing these will be a fit-for-purpose regulatory architecture that evolves in line with changing trends and behaviours.

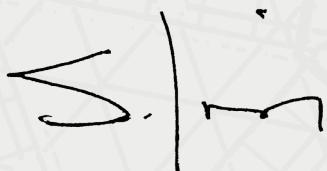
Finally, a **diversified** market ecosystem is a prerequisite to strengthen the Malaysian capital market's overall competitiveness. Infusion and renewal of market intermediaries, platforms and service providers can help raise the level of market sophistication and depth, to create enduring product and service offerings. In order to compete and prosper, market participants will be given the space and opportunities to innovate and evolve. Consequently, this also means that they must step up and take on added responsibilities and greater accountability.

Achieving these desired outcomes calls for each and every stakeholder to embrace several key ingredients for success. High standards of care, diligence and governance must be prioritised across all products and market segments. Intermediaries and service providers will also need to integrate agility and flexibility into their work processes. This must be supported by effective management of risks, better capital and resource utilisation, as well as a greater emphasis on talent and innovative skillsets.

A corporate culture that values integrity and transparency will also serve to strengthen confidence in the market's ability to deal with emerging challenges and risks. In addition, market stakeholders have to be prepared to adopt more socially conscious and purposeful mindsets as part of their philosophy and values, as well as their overall organisation DNA. Looking ahead, listed entities and other market participants will be expected to be ever more mindful of their wider impact on society, local communities and the economy. The hallmark of the capital market of the future will be that benefits are sustainable and accrue to the many.

The CMP3 is a shared journey to be undertaken to build a thriving Malaysian capital market. On behalf of the SC, I would like to acknowledge the invaluable contributions of everyone involved in the process of developing this Masterplan. We hope its rollout will meet with a similar level of support and commitment from all stakeholders.

The way forward calls for steady hands and determination as we draw from previous lessons and experiences, as well as new approaches to propel ourselves forward. Together, we will strive to be a relevant, efficient and diversified capital market.



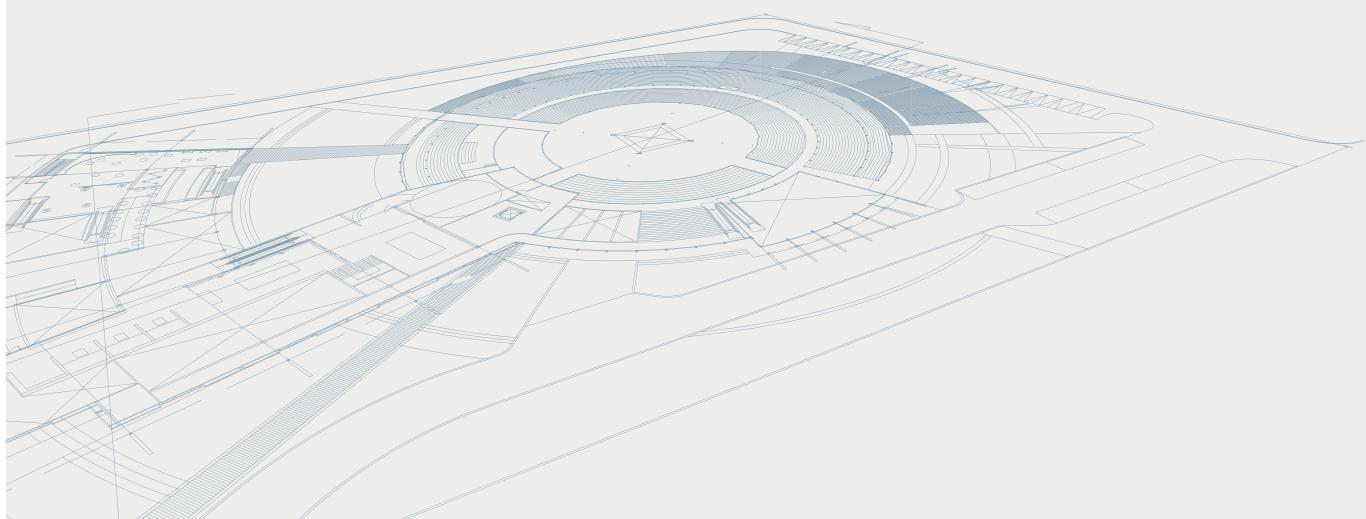
**DATUK SYED ZAID ALBAR**

Chairman, Securities Commission Malaysia

September 2021

## CHAPTER 1

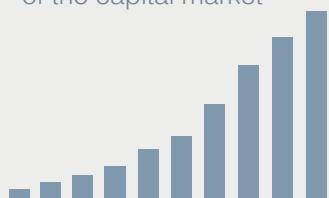
# REVIEW OF THE CAPITAL MARKET MASTERPLAN 2



# HIGHLIGHTS OF CAPITAL MARKET DEVELOPMENT (2011-2020)

**5.3%**

compound annual growth rate (CAGR) in total size of the capital market



**8.3%**

CAGR in alternative fundraising<sup>1</sup> for emergent companies



Bursa MidS Cap Index grew by

**5.5%**

CAGR since 2017<sup>2</sup>



**7.7%**

CAGR in total bonds outstanding



**9.1%**

CAGR in total asset under management (AUM)



**7.5%**

CAGR in total size of Islamic capital market (ICM)

**1st**

globally to issue green sukuk



**2nd**

globally in protecting minority investors



**5th**

in APAC for macro corporate governance (CG) quality



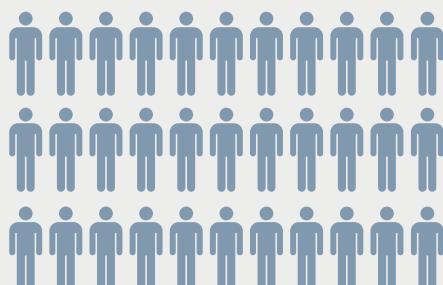
**73%**

public-listed companies (PLCs) have at least one woman director on the board



**~2 million**

individuals reached through InvestSmart®



Note:

<sup>1</sup> Alternative fundraising includes equity crowdfunding, peer-to-peer financing, venture capital, private equity and LEAP market.

<sup>2</sup> FTSE Bursa Malaysia MidS Cap Index was launched in May 2017.

Source: SC; FTSE Russell; Doing Business 2020, World Bank, 2020; Corporate Governance Watch 2020, ASEAN Corporate Governance Association (ACGA), 2020.

## 1.1 RESILIENCE IN AN ERA OF HEIGHTENED GLOBAL UNCERTAINTY

The global economic and financial landscape during the CMP2 period was marked by significant events, many of them largely unanticipated at the start of the decade. As a result, capital markets fluctuated between periodic bouts of volatility and calm, but nonetheless stayed relatively resilient. The 2010s began with slower-than-expected recovery of advanced economies (AEs) in the aftermath of the global financial crisis and ended with the unprecedented global pandemic of 2020 that resulted in the most severe economic shock since the 1930s. In between, the global economy experienced numerous other risk events, which influenced the direction of portfolio flows.

### 1.1.1 OVERVIEW OF GLOBAL GROWTH IN THE LAST DECADE

The decade saw increasing economic and policy uncertainty, with multiple key events that had considerable ramifications to the global economy and financial markets around the world. These included the sovereign debt crisis in Europe, the decision by the United Kingdom (UK) to exit the European Union and the growing United States (US)-China trade tensions following the US election of 2016.

#### Chart 1

THE CMP2 DECADE WAS MARKED BY SIGNIFICANT EVENTS THAT HEIGHTENED UNCERTAINTY AND CAUSED SIGNIFICANT RAMIFICATIONS GLOBALLY

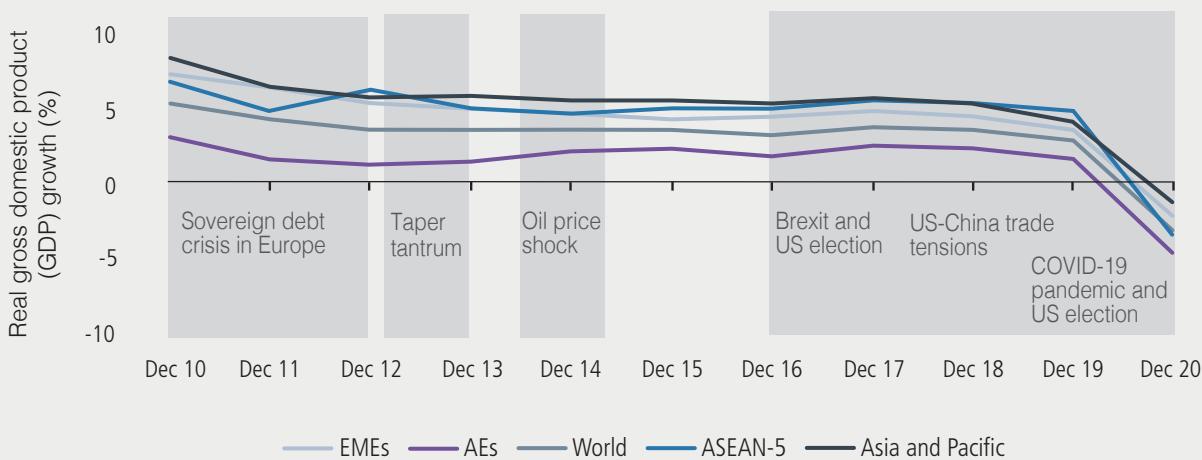


Source: *World Uncertainty Index, Stanford MimeoGraph*. Ahir, H., N., Bloom, and D., Furceri. 2018.

The greater levels of uncertainty led to a divergence in economic performance across countries. In particular, AEs entered into a period of subdued economic growth and low interest rates. Further compounding the AEs' weak performance were the long-term structural trends of ageing populations and weaker productivity growth. This resulted in emerging market economies (EMEs), particularly in the Asian region, leading global growth, driven primarily by domestic demand and continued economic integration.

## Chart 2

DESPITE A CHALLENGING DECADE, ASIA CONTINUED TO BE THE LEADING DRIVER OF GLOBAL GROWTH



Source: *World Economic Outlook Database, International Monetary Fund (IMF), 2020*.

### 1.1.2 THE DOMESTIC CAPITAL MARKET GREW IN TANDEM WITH THE ECONOMY

Despite the challenging global environment, the Malaysian economy continued on a stable growth path in tandem with the wider Asian region prior to 2020. When the global pandemic hit in the first quarter of 2020, it brought significant economic repercussions arising from the shutdown of businesses, job losses, as well as the reduction in consumer spending and consumer confidence. Overall, the domestic economy grew at an average rate of 5.1% per annum (p.a.) from 2011 to 2019, underpinned by domestic demand and broad-based expansion across most economic sectors (Chart 3) before contracting by 5.6% in 2020 amid the global pandemic. Headline inflation remained low and stable at an average rate of 1.9% p.a. during the period, with inflation expectations being well-anchored.

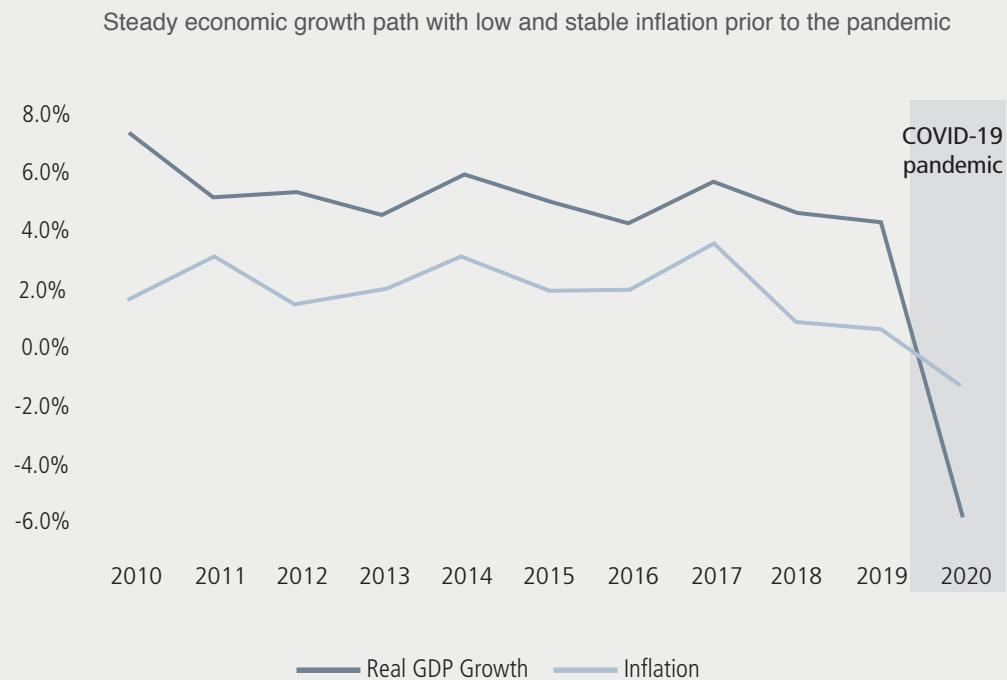
The stable economic growth supported the growth of debt and equity-based financing in tandem with the increase in investment, characterised by the steady growth of gross fixed capital formation (GFCF) over the years. This was achieved by broadening the capability and capacity of the capital market as well as directing capital towards productive economic activities that ensured businesses, including micro, small and medium-sized enterprises<sup>1</sup> (MSMEs) as well as mid-tier companies<sup>2</sup> (MTC), continued to obtain access to financing.

<sup>1</sup> MSMEs in Malaysia are defined as companies with annual revenues up to RM50 million or full time employees up to 200 in the manufacturing sector, and up to RM20 million or full time employees up to 75 in other sectors. Source: SME Corporation Malaysia.

<sup>2</sup> MTCs in Malaysia are defined as companies with annual revenues between RM50 million and RM500 million in the manufacturing sector and between RM20 million and RM500 million in other sectors. Source: MATRADE.

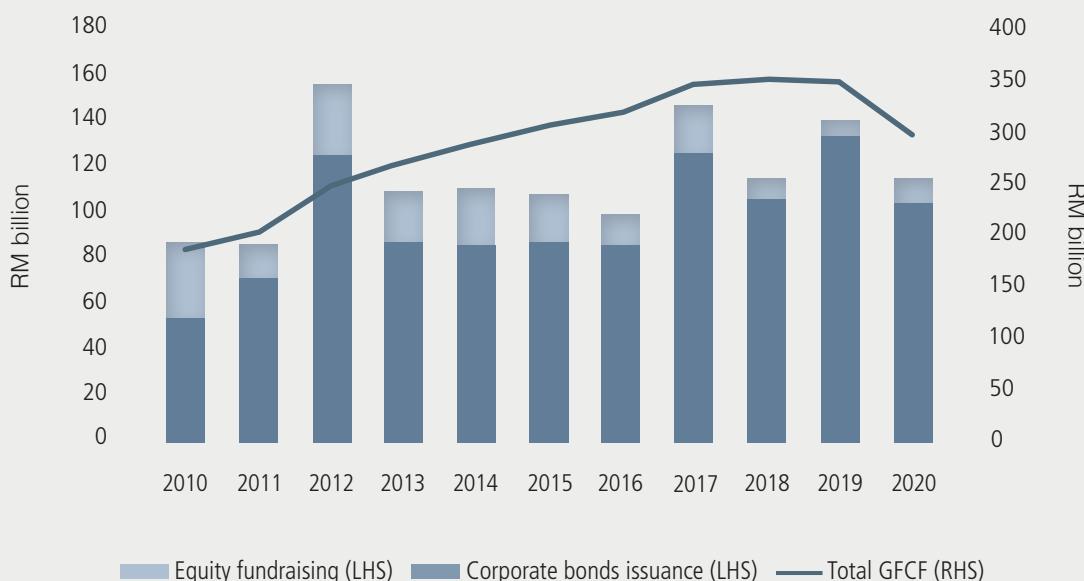
### Chart 3

#### STEADY ECONOMIC GROWTH PATH PRIOR TO 2020, ENABLED BY CONTINUED ACCESS TO MARKET-BASED FINANCING



Source: Department of Statistics Malaysia (DOSM).

Increasing trend in total capital formation and active fundraising in the capital market<sup>1</sup>



Note:

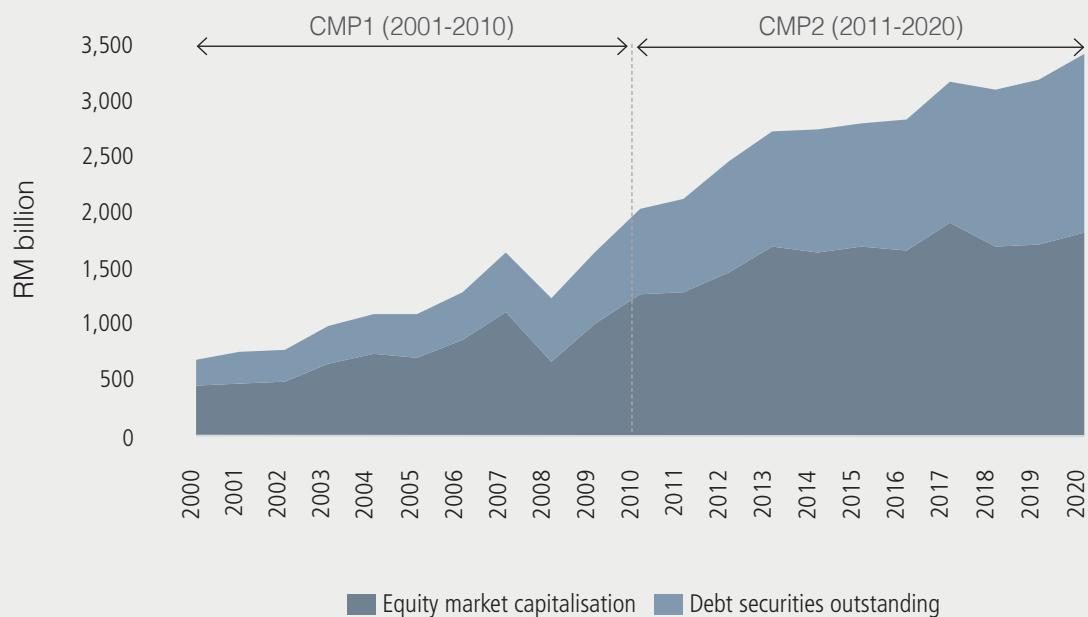
<sup>1</sup> Total GFCF refers to private and public investment in fixed assets in the services, manufacturing, mining and quarrying, agriculture, and construction sectors.

Source: SC; DOSM.

While the *Capital Market Masterplan 1* (2001-2010) was launched to build the foundation and ecosystems of the capital market, the *CMP2* (2011-2020) focused on strategies that would expand the capital market further, with robust governance in place to ensure market stability and integrity. As a result of these focused plans and strategies, the domestic capital market remained relatively resilient and continued to chart strong growth, expanding from RM2.0 trillion at the start of 2011 to RM3.4 trillion at the end of 2020 (Chart 4).

#### Chart 4

THE MALAYSIAN CAPITAL MARKET GREW TO RM3.4 TRILLION AS AT END OF 2020



Source: SC.

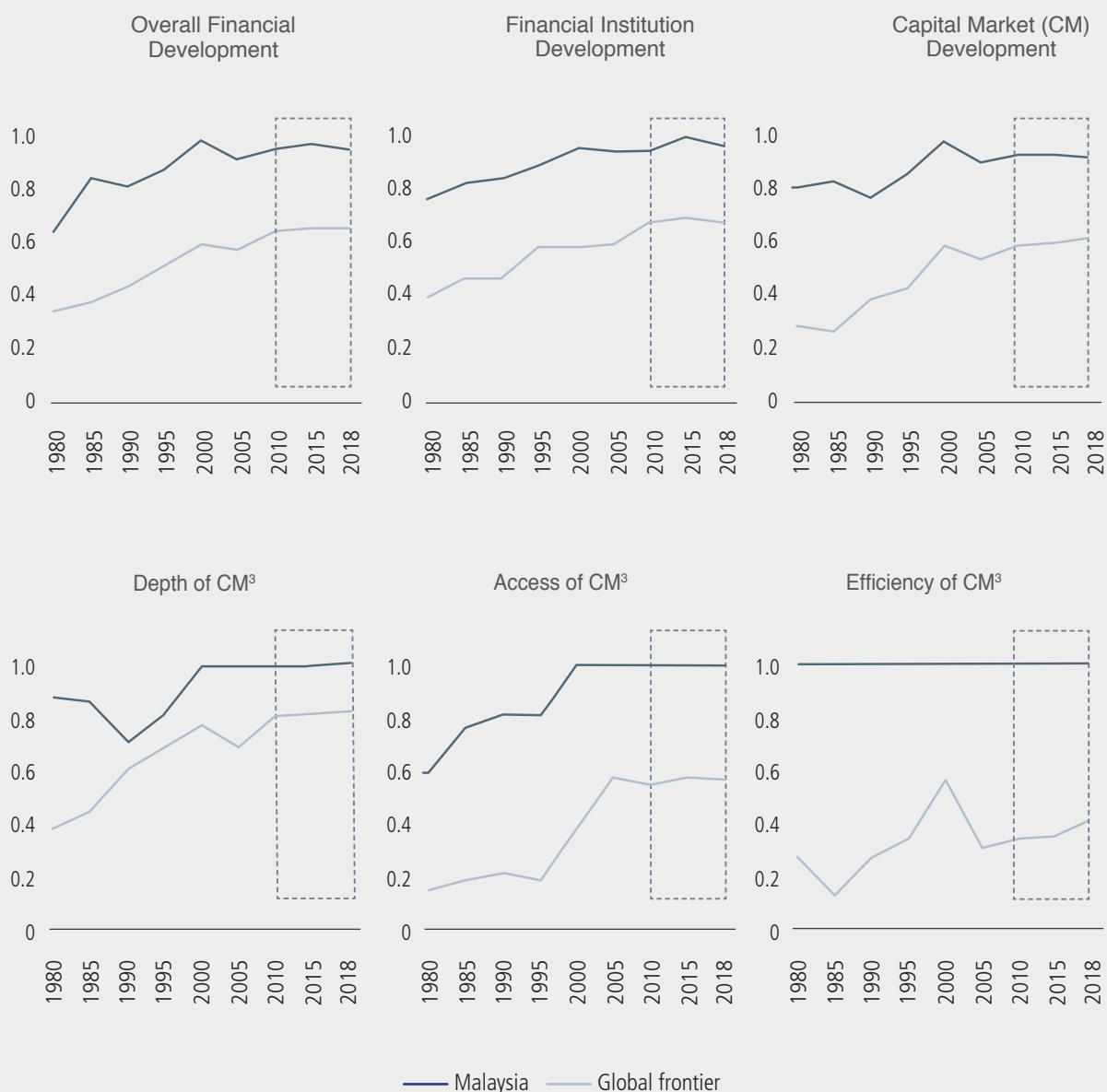
The introduction of various strategic initiatives helped to improve the depth, accessibility and efficiency of the capital market, as shown by Malaysia's overall financial sector development indicators, which continued to improve since 2010 (Chart 5).

## 1.2 EXPANDED ROLE OF THE CAPITAL MARKET

Over the last decade, the capital formation and savings intermediation landscape has evolved to cater to the increasingly diverse economic landscape, while embracing emerging themes on technology, innovation and sustainability. In response to the varied funding needs across the maturity lifecycle of businesses as well as changing investment preferences and appetites, Malaysia has seen continued expansion in the role of its capital market.

## Chart 5

### MALAYSIA'S CAPITAL MARKET<sup>1</sup> CONTINUED TO DEVELOP TOWARDS THE GLOBAL FRONTIER<sup>2</sup>



#### Notes:

- <sup>1</sup> IMF uses the term 'Financial Market', which comprises bond and equity markets, to designate the CM. For consistency, Financial Market is referred to as CM in this chart.
- <sup>2</sup> Global frontier refers to the highest ranked country for each year for any given financial development index and sub-index. All six charts plot the financial development index and sub-indices for the global frontier and Malaysia in five-year intervals.
- <sup>3</sup> The indices summarise how developed a CM is in terms of (a) depth (measures of size and liquidity of markets relative to GDP), (b) access (percentage of market capitalisation outside of top 10 largest companies and total number of debt issuers) and (c) efficiency (stock market turnover ratio) – all of which contribute towards the overall level of a country's financial development.

Source: *Financial Development Index Database, IMF, 2019.*

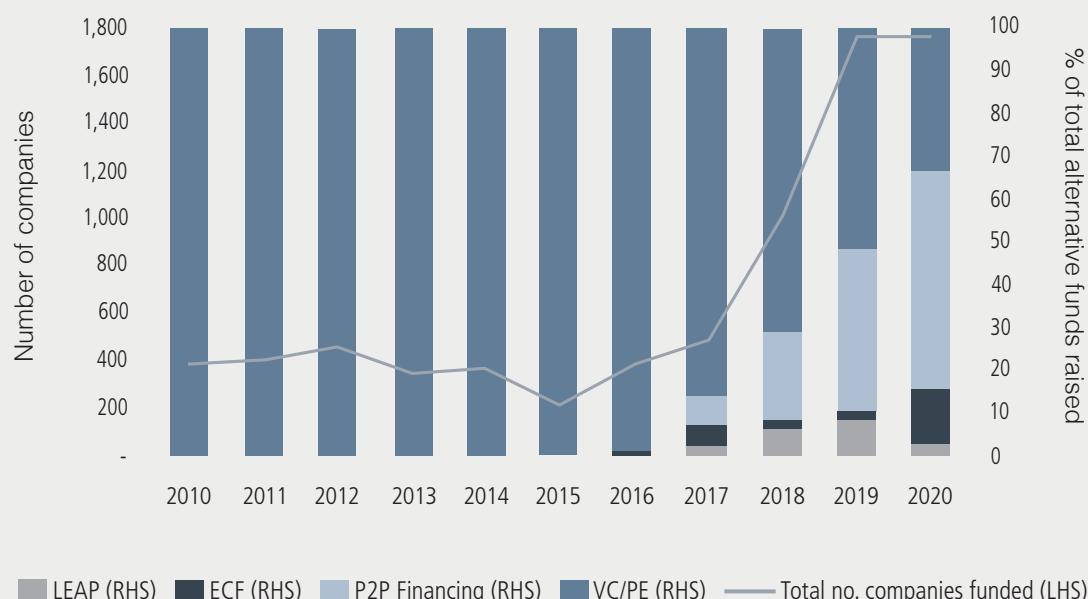
## 1.2.1 DIVERSIFIED ALTERNATIVE FUNDRAISING AVENUES

With greater innovation and use of technology, the Malaysian capital market has enabled accessibility in recent years, allowing more Malaysian businesses, in particular small and emerging companies, to fundraise. Malaysia was among the first few countries in the region to introduce new fundraising alternatives to cater to businesses at various stages of growth. This includes the introduction of equity crowdfunding (ECF) and peer-to-peer financing (P2P financing) for working capital needs of small businesses, and more recently, initial exchange offering (IEO) for early-stage entrepreneurs. In addition, onshore venture capital (VC) fundraising for early stage companies has evolved, with more investments into growth-stage companies. Similarly, onshore private equity (PE) fundraising for growth-stage companies has also increased<sup>3</sup>. Today, Malaysia comes second in PE deal volume in ASEAN<sup>4</sup>.

Alternative fundraising saw early success, spurred on by a broad range of development efforts, such as the launch of a public-private co-investment structure – the Malaysia Co-Investment Fund (MyCIF) – and the facilitation of alternative intermediation platforms. While still small in size, these alternative fundraising avenues have become a growing source of financing for MSMEs throughout the pandemic, increasing their reach to small and emergent companies by fourfold since inception.

### Chart 6

ALTERNATIVE FUNDRAISING LANDSCAPE HAS SEEN GREATER DIVERSIFICATION IN THE LAST DECADE



Source: SC.

<sup>3</sup> Internal analysis, SC.

<sup>4</sup> Source: Preqin.

## 1.2.2 ENHANCED EQUITY AND BOND MARKETS

Over the last decade, most global jurisdictions, including Malaysia, saw an overall decline in initial public offerings (IPOs), as more companies chose to stay private for longer as a result of greater liquidity in private markets, thus affording them greater control and flexibility.

Notwithstanding these trends, the mid and small cap (MidS) segment of the equity market has seen a higher number of IPO listings and increased trading activity, as reflected in Chart 7. The increase in IPO listings by MidS companies was enabled by initiatives such as the establishment of the LEAP market and an enhanced listing transfer framework from the ACE market to the Main Market<sup>5</sup>. Improved trading activity had in part been enabled by better research coverage through the MidS Research Scheme, lower trading costs with the MidS-specific stamp duty waiver and greater liquidity arising from the various MidS-related indices as well as index futures.

The corporate bonds and sukuk market continued to be a strong fundraising avenue over the last decade, with the outstanding amount growing by 8.9% CAGR to RM732.4 billion in 2020. Share of corporate bonds and sukuk over total issuances increased to 28.5% from 13.0% in 2010. This growth was built on facilitative policies, which strengthened local credit rating capabilities as well as enhanced fundraising flexibilities with liberalised limits and credit rating requirements. To improve liquidity in the secondary market, the SC introduced regulated short selling for corporate bonds and facilitated direct retail participation within the bonds and sukuk market. (Chart 8)

Rapid developments in technology offered electronic solutions to enable growing demand. Together with the increase in the number and types of alternative fundraising platforms, traditional public fundraising channels were also enhanced for greater efficiency. Thus, the operational efficiency of the market infrastructure improved with greater flexibilities for online account openings, the digitisation of corporate actions, as well as the post-trade and settlement process. In line with global best practices, Bursa Malaysia enhanced securities trading efficiency with the introduction of the T+2 settlement cycle. These measures assisted in reducing costs and market friction for participants.

## 1.2.3 BROADENED INVESTMENT OPTIONS AND INTERMEDIATION CHANNELS

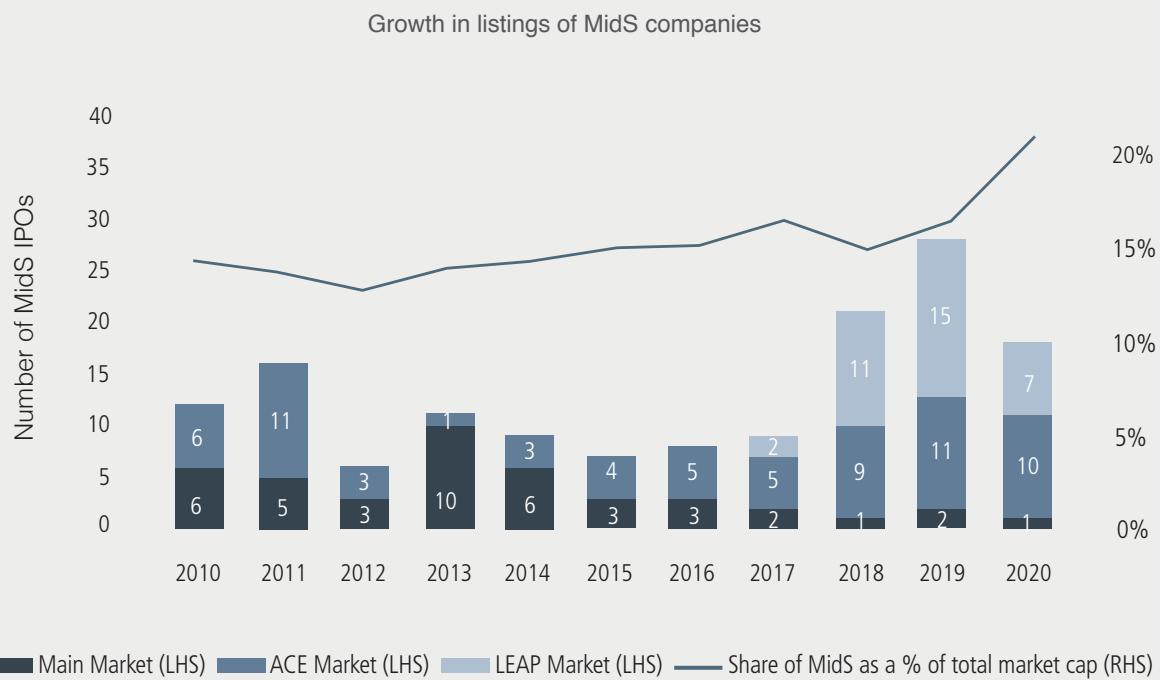
Today, investors in the Malaysian capital market have a diverse range of trading and investment options. At the higher end of the risk spectrum, investors are able to invest in digital assets, derivatives products such as contracts for difference (CFDs), as well as participate in the growth of Malaysian MSMEs through the stock market and ECF platforms. More risk-averse investors can invest in smaller-ticket retail bonds and sukuk, explore new strategies with unit trusts and exchange-traded funds (ETFs), and embrace value-based investing with environmental, social and governance (ESG)-focused funds.

The evolution of the investment needs of Malaysian investors generated significant growth in the industry AUM and brought changes to the Malaysian investment landscape, including greater diversity in product range and better intermediation capacity. As a result, AUM grew at a compounded pace of 9.1% p.a. from RM377.5 billion in 2010 to RM905.5 billion in 2020 (Chart 9).

<sup>5</sup> An enhanced transfer process for ACE Market counters to move to the Main Market was introduced in tandem with the revision in the SC's *Equity Guidelines* in 2013.

## Chart 7

### HIGHER NUMBER OF MIDS LISTINGS AND IMPROVED TRADING ACTIVITY



Note:

MidS stocks comprise listed companies on the LEAP Market, ACE market and Main market (with market capitalisation between RM200 million and RM2 billion as at time of listing).

Source: SC.

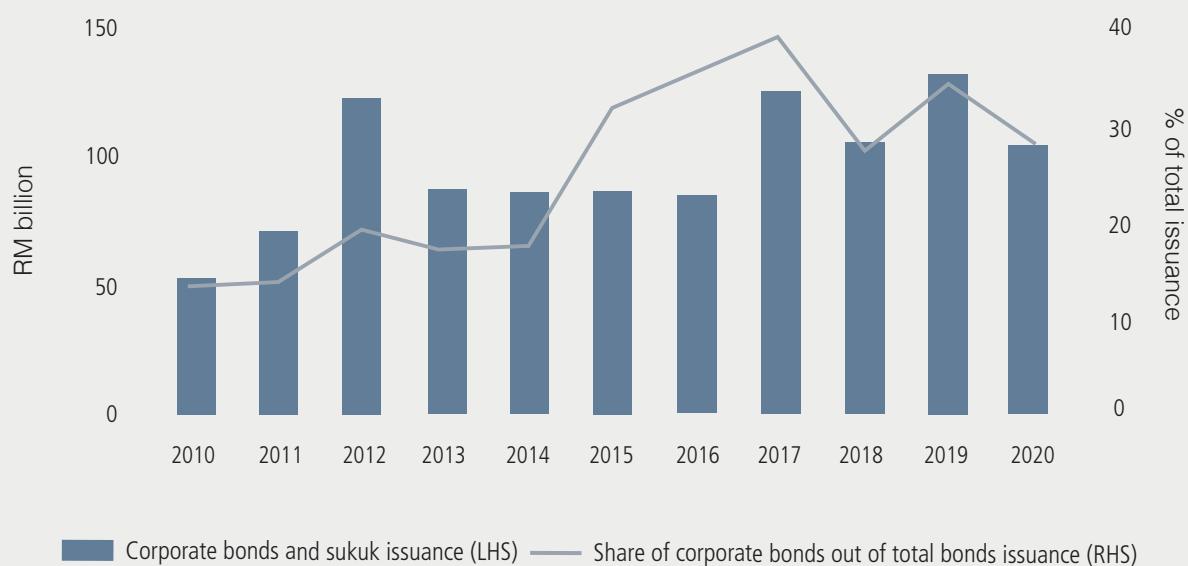
### MidS turnover has grown since end 2010



Source: SC.

### Chart 8

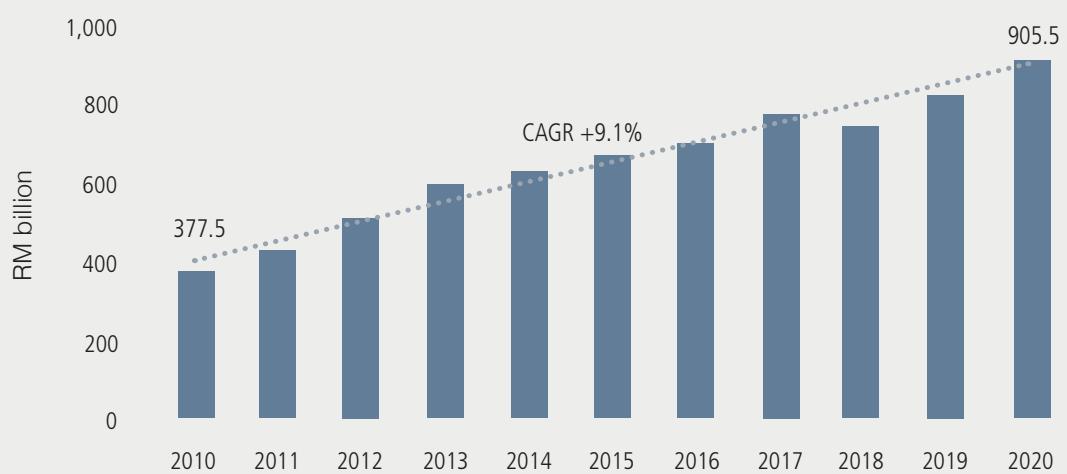
CORPORATE BONDS AND SUKUK GREW IN SIGNIFICANCE OVER THE LAST DECADE



Source: SC.

### Chart 9

TOTAL AUM MORE THAN DOUBLED OVER THE LAST DECADE



Source: SC.

In addition, the introduction of the private retirement scheme (PRS) provided individuals with a private option to complement the public mandatory retirement scheme and longer-term savings flexibility. Since the inception of PRS in 2012, its AUM has grown by a CAGR of 71.5% from RM62.7 million in 2012 to RM4.7 billion in 2020.

The last decade saw the offering of more capital market services, including boutique fund managers, standalone derivatives trading and clearing intermediaries, as well as dual-licensed securities and derivatives dealers. As the demand for digital and online services grew, new intermediation models were facilitated in line with the SC's digital agenda for the capital market, such as digital-only broker, digital investment management (DIM), recognised market operator (RMO) and digital asset exchange (DAX). In addition, e-services platforms were approved to widen the online distribution of capital market products. Industry incumbents also worked with regulators to digitise various aspects of the broking and fund management value chain<sup>6</sup> to remain competitive. The pace of digitisation and innovation has accelerated to better cater to social distancing needs and movement control orders<sup>7</sup> during the COVID-19 pandemic. All these efforts not only facilitated greater options and product innovation within the market but have further enhanced the investing experience.

#### 1.2.4 CHAMPIONED GLOBAL ICM GROWTH AND INNOVATION

Malaysia continued to be a prominent global ICM hub and a leader in global sukuk outstanding and issuances in 2020. Shariah-compliant assets amounted to RM2.3 trillion as at end 2020, having grown from RM1.1 trillion in 2010. Malaysian sukuk outstanding more than tripled in size on the back of facilitative development policies. Islamic AUM meanwhile grew 2.7 times, underpinned by initiatives outlined in the SC's *Islamic Fund and Wealth Management Blueprint*, which was launched in 2017.

Malaysia's global position as an ICM thought leadership hub has strengthened. Throughout the decade, SC-led thought leadership events have brought together scholars, practitioners, regulators, intermediaries and investors to catalyse discussions ranging from the role of ICM in infrastructure and sustainable development to Islamic social finance and impact investing. Strategic platforms and forums like the SC-Oxford Centre for Islamic Studies (OCIS) roundtable, the Scholar-in-Residence programme and the SC-World Bank-International Organization of Securities Commissions (IOSCO) Asia Pacific Hub Conference, have helped to shape the growth of ICM globally. Capacity-building programmes conducted by the Securities Industry Development Corporation (SIDC), such as Shariah Professional Programmes for ICM and Islamic Capital Market Graduate Training Scheme, also helped to strengthen human capital development.

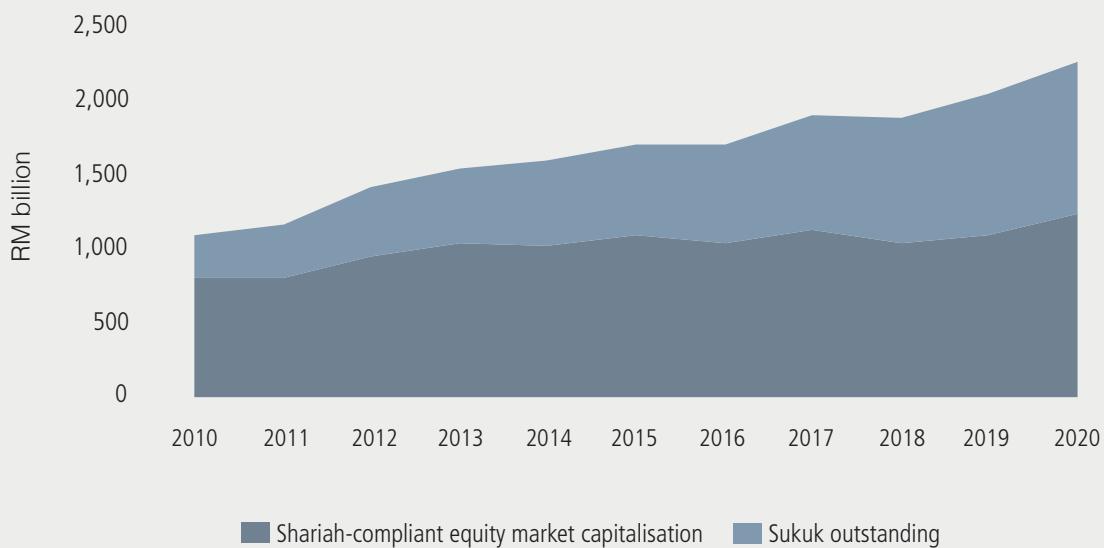
Innovation continues to be at the heart of the SC's ICM strategy, with Malaysia pioneering various global ICM milestones. This includes the issuance of the world's first green sukuk, ESG sukuk fund and IPO with *waqf* shares as well as a ground-breaking resolution by the SC's Shariah Advisory Council (SAC) on the permissibility of investment and trade in digital assets on registered DAX. (Chart 10)

<sup>6</sup> As part of ongoing efforts to modernise and promote efficiencies within the capital market, the SC established the Brokerage Industry Digitisation Group (BRIDGe) in August 2018 and the Fund Management Industry Digitisation Group (FMDG) in November 2019.

<sup>7</sup> The movement control order is a series of national quarantine and cordon sanitaire measures implemented by the federal government of Malaysia in response to the COVID-19 pandemic in the country.

## Chart 10

### THE MALAYSIAN ICM DOUBLED IN SIZE OVER THE LAST DECADE



Source: SC.

#### 1.2.5 DEVELOPED A SUSTAINABLE AND RESPONSIBLE INVESTMENT ECOSYSTEM, AND CAPITALISED ON ICM-SRI SYNERGIES

In line with Malaysia's commitment to the United Nations's (UN) 2030 Agenda on Sustainable Development, the SC embarked on the development of the Sustainable and Responsible Investment (SRI) ecosystem, anchored on the 5i-Strategy. This entails developing the SRI investor base, issuer base, instruments, internal governance culture and information architecture. The launch of the *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market* (SRI Roadmap) in 2019 provided added momentum to broad-ranging efforts to enable product standards, incentives, disclosures and reporting – all of which set the stage for the industry to push the envelope on SRI offerings and deliver value-enhancing ESG-based solutions.

The introduction of the Sustainable and Responsible Investment Sukuk Framework (SRI Sukuk Framework) and the *Guidelines on Sustainable and Responsible Investment Funds* (Guidelines on SRI Funds) capitalised on similarities between the underlying principles of Islamic finance and SRI. This has thus far produced 13 SRI sukuk issuers, with a combined total issuance amounting to RM5.5 billion as at December 2020 and catalysed a series of innovative ICM-SRI product structures. In fact, Malaysia has one of the largest SRI AUM in the Asian region (ex-Japan)<sup>8</sup> due to the strength and scale of its Islamic funds, which are recognised as part of the overall SRI universe.

Given the importance of regional and global standards for greater SRI growth, Malaysia, through the SC, was actively involved in various collaborations pivotal to the SRI ecosystem. At the ASEAN level, the SC jointly led the ASEAN Capital Markets Forum (ACMF) Sustainable Finance Working Group to develop the *ASEAN Green Bond Standards* (2017), *ASEAN Social Bond Standards* (2018) and the *ASEAN Sustainability Bond Standards* (2018). At the global level, the SC is a member of the IOSCO's Sustainable Finance Task Force,

<sup>8</sup> *Global Sustainable Investment Review*, Global Sustainable Investment Alliance, 2016.

which seeks to improve the comparability of sustainability-related disclosures as well as cross-border regulatory and supervisory co-ordination. Domestically, both the SC and Bank Negara Malaysia (BNM) kicked off the Joint Committee on Climate Change (JC3) with industry players, to accelerate climate action through the financial sector. Centres of Excellence (COEs) on sustainability for PLCs, financial intermediaries and investors respectively were also established by Capital Markets Malaysia (CMM), an SC affiliate, together with strategic partners to enhance the SRI capabilities among relevant stakeholders.

Such efforts are crucial in the face of greater global impetus to address climate change and pandemic-exacerbated social needs, and are expected to elevate Malaysia's position as a SRI centre in the region.

## **1.3 ENHANCED GOVERNANCE FOR MARKET INTEGRITY AND INVESTOR PROTECTION**

Market integrity and investor protection are key tenets of a thriving capital market. Against a backdrop of continuous market growth and innovation, the regulatory framework governing markets, intermediaries and corporates had to evolve to stay relevant. Enhanced governance and greater accountability, coupled with credible deterrence and investor empowerment, have played a crucial role in protecting investors and ensuring the integrity of the markets.

### **1.3.1 STRENGTHENED OVERSIGHT OF SYSTEMIC RISKS**

The previous financial crises have led to greater emphasis by banking and securities regulators worldwide on the need for early identification of systemic risks. The SC's approach to systemic risk management was multi-pronged, taking into consideration potential risks arising from sources external and internal to the capital market.

At the macro-level, the Macro-Prudential Surveillance Framework was established to identify vulnerabilities in the capital market by assessing risk transmission across intermediaries and market segments. This enabled the deployment of policy alternatives to prevent distress and mitigate systemic risks. In tandem, the *Securities Commission Act 1993* (SCA) and *Capital Markets and Services Act 2007* (CMSA) were enhanced to strengthen the SC's ability to manage and monitor such risks.

These efforts complemented a shift towards a risk-focused supervisory approach, with emphasis on intermediaries' risk profiles in relation to their business strategies and exposures. A dedicated risk supervisory group was set up to focus on systemically important financial institutions (SIFIs), to ensure that preventive and corrective actions can be taken in a timely manner to address emerging risks. For smaller intermediaries that are vulnerable to economic shocks, proactive engagement was undertaken to promote the adoption of stress testing in their risk management processes.

The Systemic Risk Oversight Committee (SROC) was also established to oversee systemic risks and co-ordinate market crisis management issues. This includes co-ordination with national and international regulators to ensure a more holistic approach to managing systemic risk and financial sector stability. This framework enabled both the SC and BNM to manage risks and stability in the financial and capital markets as the impact of the pandemic unfolded in the country.

### **1.3.2 EXPANDED REGULATORY FRAMEWORK AS THE MARKET EVOLVED**

The evolution of markets in the last decade saw the emergence of alternative platforms or marketplaces that have redefined the intermediation process between investors and issuers. Given that these new business models have different risk profiles compared to the public markets in Malaysia, the SC introduced a risk-based regulatory approach with the RMO regime to facilitate and supervise their development. At the same time, systemically important market structures or approved exchanges were held to higher standards to maintain market integrity. Steps were taken to better govern key financial market infrastructures that clear, settle and function as a central depository. This includes the issuance of the *Guidelines on Financial Market Infrastructures* (FМИs) to bring FМИs in line with the IOSCO's principles.

Bursa Malaysia's discharge of its regulatory duties was assessed annually, together with its governance practices, market surveillance, supervision and cyber security risk management. This has laid the foundation for the establishment of a regulatory subsidiary to further enhance its governance structure and address potential conflicts of interest. When completed, this will place Malaysia's exchange regulatory framework in line with other jurisdictions such as Singapore and Japan.

With technological advancements, markets have seen increased sophistication in trading dynamics and greater demand for direct market access, automated trading and proprietary trading. Regulatory guidelines, rules and reporting obligations were enhanced to facilitate and govern the growth of trade execution services amid greater trading vibrancy.

Since the start of the decade, global efforts focused on enhancing the strength of market institutions and enacting greater transparency for over-the-counter (OTC) transactions. As the domestic capital market matured, legislative amendments were enacted to safeguard the enforceability of netting provisions for contracts. The introduction of a framework for OTC CFD, which required investors to trade only with licensed CFD intermediaries, facilitated better transparency and management of OTC risks.

### **1.3.3 EXPANDED ACCOUNTABILITIES WITH GREATER DIVERSITY IN INTERMEDIATION AND PRODUCT RANGE**

The growth and diversity of intermediation services and products thrived under a facilitative regulatory regime that recognised the twin importance of innovation and accountability. This entailed progressive legislative amendments and robust governance arrangements to ensure market participants exercise appropriate duty of care for their customers and actions.

To strike an optimal balance between innovation and regulation, the SC adopted the principle of proportionality for liberalisation measures and the rationalisation of regulatory frameworks. Progressive liberalisation of rules and guidelines allowed for the entry of fully foreign-owned intermediaries in different market segments, while the decoupling of existing arrangements – including derivatives clearing and trading – and increased outsourcing of non-core functions facilitated new business models.

The rationalisation of regulatory frameworks was undertaken in line with growing market maturity. This included the establishment of the Lodge and Launch (LOLA) platform, which allowed for a quicker time to market for wholesale products for sophisticated investors, with post-lodgement reviews being conducted afterwards. The ease of doing business was improved with a more cost-effective regulatory

regime, for example, replacing the annual licensing renewal requirement with greater monitoring and regular reporting. The SC also established a central electronic disclosure system for continuous reporting obligations to facilitate efficient information access.

Greater accountability was placed on boards and management of intermediaries to monitor the business conduct of employees and agents. This required boards to take an active role in driving compliance and risk management culture as well as manage potential conflicts of interest. The promotion of a strong compliance culture among directors of PLCs was enhanced through the Capital Market Director Programme delivered by the SIDC, and the *Guidelines on Conduct of Directors of Listed Corporations and Their Subsidiaries*.

In addition, investors were better empowered to make informed investment decisions through strengthened disclosures, greater focus on suitability assessments and post-issuance obligations by intermediaries. With the widespread usage of digital marketing channels in recent years, product issuers were allowed greater flexibility in using a wider range of advertising platforms, including social media, messaging applications and video streaming, to responsibly promote their products and services through the new *Guidelines on Advertising for Capital Market Products and Related Services* issued in 2020.

#### 1.3.4 STRENGTHENED CORPORATE GOVERNANCE PRACTICES

In the CMP2, the SC set out to develop a capital market that is distinguished by the high quality of its governance. Good CG practices engender trust and confidence among investors, and provide a solid foundation to achieve sustainable growth. Recognising the importance of a culture of self and market discipline, the *Corporate Governance Blueprint* (CG Blueprint) issued in 2011 outlined the need for better governance across the market ecosystem, including directors, shareholders and gatekeepers, as well as through public and private enforcement.

Over the last decade, Malaysia continued to receive international plaudits for its CG standards. In the recent *Corporate Governance Watch 2020* assessment by ACGA, Malaysia ranked fifth. There were marked improvements recorded in the areas of CG rules, standards and practices of auditors and audit regulators, investor stewardship as well as the CG culture of listed companies. Malaysia also ranked second in protecting minority investors, according to the World Bank's *Doing Business 2020* – a hallmark to the strength of its shareholder rights, governance safeguards and corporate transparency requirements.

The *Malaysian Code on Corporate Governance* (MCCG) has evolved to utilise the Comprehend, Apply and Report (CARE) approach to promote greater internalisation of CG. Coupled with the SC's annual reporting of adoption rates via the *Corporate Governance Monitor* (CG Monitor), Malaysia has seen improvements across various indicators of board leadership and effectiveness, audit and risk management, integrity in corporate reporting and meaningful relationships with stakeholders. Gender diversity in PLCs have also seen marked improvements as a result of efforts by the SC and the industry to champion it. As at end of 2020, 73% of PLCs have at least one female on their board, compared to 44% in 2018.

In fostering high quality independent auditing in the capital market, the Audit Oversight Board (AOB), which was set up in 2010, continued to strengthen its focus on risk-based inspections and to take enforcement actions against auditors for non-compliance. Additionally, new registration criteria were introduced in 2018 to ensure that the auditors' gatekeeping role remains relevant, and more importantly, to encourage audit firms to increase their capacity and improve audit quality.

The decade also saw growth in the professionalism and effectiveness of corporate directors through the work of the Institute of Corporate Directors Malaysia (ICDM). There was also greater investor stewardship, underpinned by the *Malaysian Code for Institutional Investors* (MCII) and the Institutional Investors Council (IIC). Stakeholder alignment for CG was improved through the CG Council, the greater use of technology to enhance disclosures and active shareholder participation. A new guideline on the conduct of directors of listed issuers and their subsidiaries was also issued in line with the SC's *Corporate Governance Strategic Priorities (2017-2020)*, which seeks to, among others, promote the proper discharge of directors' fiduciary duties in corporate Malaysia.

### **1.3.5 GREATER INVESTOR PROTECTION THROUGH CREDIBLE DETERRENCE AND INVESTOR EMPOWERMENT**

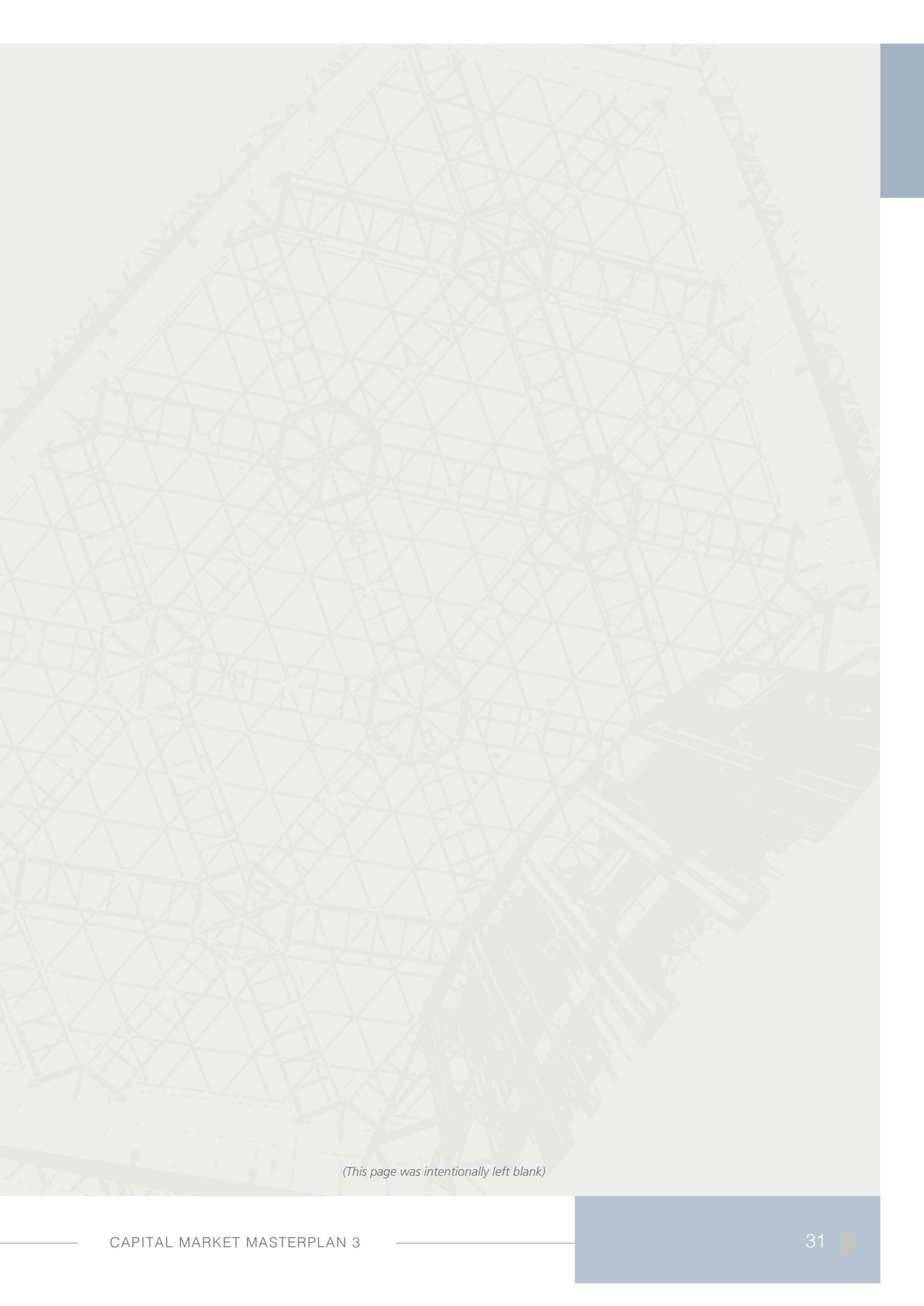
Investor protection is the SC's *raison d'être* and underpins most of the development and regulatory efforts for the Malaysian capital market. This includes ensuring investors are sufficiently empowered to make informed financial and investment decisions, aware of fraud schemes and scams as well as able to seek redress. Credible deterrence through effective enforcement actions constitutes another key component of investor protection and empowerment.

Over the years, the SC's administrative, civil and criminal prosecution powers as well as enforcement reach were expanded to enable greater action against directors, officers and intermediaries, to minimise losses to investors. These include various pre-emptive measures such as obtaining court injunctions in order to freeze assets pre-investigation or trial, seizing properties believed to be related to unlawful activities and proactive engagements with PLCs and auditors. The focus of enforcement cases has also evolved from market manipulation and insider trading cases to the areas of securities fraud, misconduct and CG. Greater collaboration with Bursa Malaysia and other self-regulatory organisations (SROs) in the capital market has led to timely identification of possible breaches of securities laws and increased efficiency to undertake actions through parallel enforcement framework. Continued co-operation with international regulators and agencies also assisted in providing restitution for 1,856 investors totaling RM8.1 million between 2011 and 2020.

Under the aegis of the SC's InvestSmart® brand, various investor education initiatives were carried out to empower the Malaysian public. These include the annual InvestSmart® Fest, #FinPlan4U free financial planning clinics, seminars, online webinars and joint events with other agencies. Since its establishment in 2014, InvestSmart® has reached out to almost two million individuals through these initiatives. InvestSmart® also reached out to millions of other Malaysians nationwide through television, radio, InvestSmart®'s website, mobile app and social media channels, providing information on capital market products and services as well as promoting anti-scam awareness.

These investor empowerment initiatives are further complemented by others in the capital market such as the Bursa Marketplace and Bursa Academy by Bursa Malaysia as well as SmartFinance by the Financial Planning Association of Malaysia (FPAM). All these initiatives are in line with the objectives of the Financial Education Network (FEN), co-chaired by the SC and BNM, to elevate financial literacy and promote responsible financial behaviour among Malaysians.

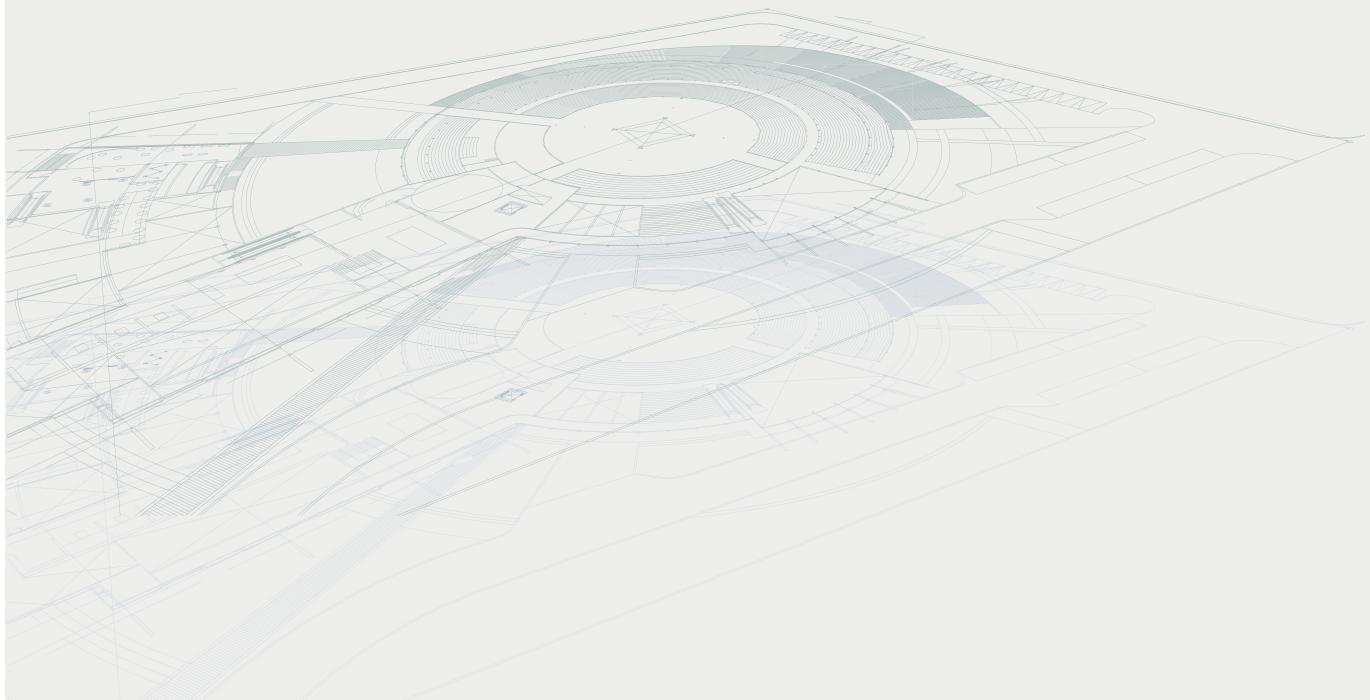
The establishment of the Securities Industry Dispute Resolution Center (SIDREC) further enhanced investor accessibility to alternative dispute resolution mechanisms. SIDREC, together with the Capital Market Compensation Fund (CMCF), offers effective avenues for investor redress. From 2011 until 2020, SIDREC had resolved more than 65% of the total 541 eligible disputes.



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## CHAPTER 2

# POSITIONING AHEAD



# CHAPTER SUMMARY

1



## The new wave of climate action

Growing movement to mainstream the transition to net-zero economy, catalysed by the pandemic and renewed global push

2



## The rise of the stakeholder economy

Growing calls for businesses to create value for society and environment besides serving their shareholders – a meaningful reset of shareholder capitalism

3



## The changing dynamics of globalisation

Geo-political dynamics and trade conflicts have increased complexities for global supply chain and emphasised the need for countries to raise the bar on competitiveness

4



## The ageing global population

Fast ageing global population brings about implications to retirement savings, catalysing greater need for the younger generation to invest for their future

5



## The great technology and digital acceleration

Proliferation of data and technology as well as dominance of big technology (BigTech) led to greater emphasis on regulating technology and digital services

## 2.1 GLOBAL MEGATRENDS

The IMF estimated that the global economy shrunk by an estimated 3.3% in 2020, the steepest peacetime economic contraction since the Great Depression of the 1930s, triggered by a global public health emergency. The COVID-19 pandemic has upended prior growth trajectories of all economies, adversely affecting households and companies across a broad range of economic sectors. Socioeconomic vulnerabilities were also exacerbated during the pandemic and development gains of the previous decades were reversed. The World Bank estimated that per capita income had fallen in more than 90% of emerging markets and developing economies (EMDEs) due to the pandemic, with losses of at least 10 years of per capita income gains expected for more than 25% of the EMDEs.

With the successes on vaccine development, moving forward, most economies are expecting a recovery in economic growth. The IMF projects the global economy to grow at an average rate of 4.0% p.a. between 2021 and 2026, with a higher average rate of 5.0% p.a. for EMDEs. In particular, ASEAN-5<sup>1</sup> is expected to remain one of the fastest growing regions in the global economy, with an average annual growth of 5.5% over the next six years<sup>2</sup>. Nevertheless, significant uncertainties remain, with the extent of the economic recovery depending in part on governments' abilities to keep the pandemic under control, avoid pre-mature withdrawals of policy supports and minimise long-term economic scars.

Looking ahead, several relevant megatrends are expected to shape the recovery and growth of the global and Malaysian economies – some of which are pre-existing trends, which have been accelerated by the pandemic.

### 2.1.1 THE NEW WAVE OF CLIMATE ACTION

In 2020, the urgency for climate action was pushed to the forefront, precipitated in part by the collective global action towards combating the COVID-19 pandemic, resulting in a marked decline in worldwide emission levels during lockdowns<sup>3</sup>. Coupled with growing evidence of climate change and more in-depth research into its imminent risks, global policymakers are ever more aware of the critical need to address the immediate and longer-term systemic implications to the physical world, societies and economies.

In 2020 itself, several countries unveiled legislations to achieve net-zero emissions by 2050, while many others announced their respective net-zero environmental policy targets as part of their recovery plans. To this end, Malaysia has pledged to reduce its carbon emission intensity by 45% by 2030<sup>4</sup>, relative to its 2005 levels, with a number of policies and initiatives implemented to redirect the country towards further decarbonisation.

With the election of its new president in 2021, the US rejoined the *Paris Agreement*. Together with the 26<sup>th</sup> United Nations Climate Change Conference (COP26) which will take place later this year, 2021 could well become a key inflection point for global climate action.

<sup>1</sup> ASEAN-5 countries include Malaysia, Indonesia, Phillipines, Thailand and Vietnam.

<sup>2</sup> *World Economic Outlook: Managing Divergent Recoveries*, IMF, April 2021.

<sup>3</sup> *Global Energy Review: CO2 Emissions in 2020*, International Energy Agency, March 2021.

<sup>4</sup> *Intended Nationally Determined Contribution of the Government of Malaysia*, United Nations Framework Convention On Climate Change, 2015.

The new wave of climate action is expected to reshape the fundamentals of finance, as climate risk is expected to become increasingly intertwined with investment risk<sup>5</sup>. Various parties have been calling for the mainstreaming of the transition to a net-zero economy, while others have advocated for a private financial system to support the re-engineering of economies for net-zero emissions under the COP26 Private Finance Hub. In this new era, the shift in capital allocation to sustainable businesses could see a renewed pace as climate risks are increasingly priced in by the markets, and investments into climate transition could become a key driver towards the achievement of net-zero emission commitments.

Financial regulators around the world, including Malaysia, have embarked on efforts around sustainable finance standards for investment products, taxonomies and disclosures as well as facilitative development policies to catalyse the growth in sustainable finance. It is expected that greater focus will be seen in the areas of transition finance, sustainability data, reporting standards and transparency.

## 2.1.2 THE RISE OF THE STAKEHOLDER ECONOMY

Besides climate change, the pandemic also brought attention to systemic inequalities, such as income, ethnic and gender inequalities as well as disparities between countries. At the same time, some businesses stepped up during this period of great social stress to contribute to the communities around them. During the pandemic, businesses were seen to repurpose manufacturing lines to produce personal protective equipment, redeploy airline crews to support the healthcare system and convert hotels into quarantine facilities.

Against this backdrop are growing calls for businesses to evolve from the traditional shareholder capitalism model of profit-making towards the more sustainable and socially inclusive stakeholder capitalism model – one which positions private corporations as trustees of society and the environment, instead of serving only their shareholders. Stakeholder capitalism is quickly gaining ground, due in large part to the realisation that shareholder capitalism is not sustainable and is in need of a meaningful reset to serve the needs of all stakeholders.

Central to the shift to a stakeholder economy is CG<sup>6</sup>. CG can be instrumental in defining the role of stakeholders within a corporation and to ensure that decision-making incorporates the best interests of all stakeholders – including customers, employees, regulators, local communities and shareholders. CG also involves establishing mechanisms to align the goals of a company's executive team with those of owners and other stakeholders. This, together with regulations, will shape businesses that deliver both profits and purpose in society.

*Malaysia has pledged to reduce its carbon emission intensity by 45% by 2030, relative to its 2005 levels, with a number of policies and initiatives implemented to redirect the country towards further decarbonisation.*

<sup>5</sup> Fundamental Reshaping of Finance, Larry Fink's letter to CEOs, 2020.

<sup>6</sup> Business Leaders: The Shift to Stakeholder Capitalism Is Up to Us, World Economic Forum, January 2020.

### 2.1.3 THE CHANGING DYNAMICS OF GLOBALISATION AND THE NEED TO COMPETE BETTER

In recent years, the global supply chain has had to grapple with the changes brought about by evolving geo-political dynamics and various trade conflicts – most prominent being the US-China disputes on trade and technology. The pandemic has added further complexities, prompting most governments and businesses to rethink the interdependence of global supply chains, particularly in critical areas such as health, food, strategic technologies and other essential sectors.

This could possibly rewire the configuration of global manufacturing and trade as well as various other aspects of globalisation, including the bifurcation of technology, inward sourcing or reshoring aspects of supply chains and greater restrictions in human capital mobility. There are also calls to strengthen regional co-operation, diversify sources along the value chain to mitigate risks and enhance the resilience of supply chains with the greater use of technology. Overall, this trend emphasises the need for greater competitiveness, especially in emerging economies. This would require investment in both capabilities and productivity-driven technology, underpinned by a supportive financial system. Under these circumstances, market-based financing can emerge as a more suitable alternative to fund these companies. As such, economies which have more efficient markets, both public and private, will have a greater edge when it comes to cultivating more competitive businesses.

### 2.1.4 THE DEMOGRAPHIC CHANGE AND THE RETIREMENT DILEMMA

The global population, on average, is fast aging – people are living longer and birth rates are declining. While longevity has resulted in greater demand for healthcare, technology and biosciences, an aging population will contribute to a shrinking global workforce, productivity and pool of savings, while adding pressure on pension and welfare systems. Against a backdrop of other societal trends, including increasing income inequality, human capital pressures with the rise of technology, rising public sector debt burden and expectations of lower asset returns, the changing demography could result in profound implications on world politics, economic growth and the financial system.

While there are various complexities surrounding this subject, a key challenge that is in the spotlight for most governments is retirement savings, which, if left unaddressed, will lead to fiscal issues. Governments in other countries have started looking at innovative retirement income and care solutions entailing mechanisms like social risk pooling and long-term care insurance<sup>7</sup>. Attention is also drawn to the need to address private savings for the future. This entails enabling greater savings and investment risk-taking by the broader population. Millennials, with net worth of up to US\$24 trillion globally<sup>8</sup>, and the middle income or mass affluent segment, with net worth of up to US\$140 trillion globally<sup>9</sup>, have differing characteristics when it comes to savings and investment. Moving forward, these differences will fundamentally shape the growth of the asset management industry.

There have been initial developments around age technology (AgeTech) – digital technologies that improve the lives of the older population – for financial services. This is built around the needs and wants of senior investors, with digital-inclusive initiatives to bring senior investors along the digital financial services journey – all of which point to the start of markets' evolution to cater to longevity.

<sup>7</sup> These countries are most ready to deal with ageing population, World Economic Forum, February 2020.

<sup>8</sup> Responding to Megatrends, Principles for Responsible Investments (PRI) and Willis Towers Watson, December 2017.

<sup>9</sup> Global Wealth Report 2019, Credit Suisse, October 2019.

## 2.1.5 THE GREAT TECHNOLOGY AND DIGITAL ACCELERATION

Amid the disruptions caused by the pandemic, the world has seen greater innovation – such as those across retail services, healthcare, supply chains and capital markets – driven by significantly altered consumer behaviour as well as operational needs. In this new normal, businesses globally, including industry incumbents, have seen ‘the great technology and digital acceleration’, while technology platforms, in particular BigTechs, have increased in market dominance.

The advent of technologies like 5G, cloud computing, artificial intelligence (AI) and distributed ledger technology (DLT) could significantly reshape the future landscape of capital markets and their infrastructure – among others, transforming how issuers fundraise, redefining intermediation, shaping new investor behaviours as well as revamping clearing and settlement infrastructures. In addition, a new wave of entrepreneurship has emerged on the coattails of the new normal. The surge in creativity arises from the need to respond to new or emerging requirements that are currently not addressed by incumbent institutions. While these trends are expected to accelerate productivity gains, they will also alter the landscape for capital markets.

The rapid change in technology will give rise to data, AI, cloud and other technology-related risks, which requires regulators to rethink their approach to regulating the capital markets and enforcing investor protection. More recently in 2021, some countries have taken steps to protect digital users as well as better regulate digital services and markets by striving towards a level playing field for emerging innovative companies. This may mark the beginning of a new era of regulating technology and digital intermediaries.

To keep abreast with the industry, global regulators have started to adopt greater use of technology to improve oversight, surveillance and analytical capabilities as well as support forward-looking supervision and policymaking. Along with this, regulators have initiated collaborations with forward-looking regulatory technology (RegTech) to improve compliance outcomes, strengthen reporting and better manage key risks for greater overall efficiency.

## 2.2 OUTLOOK AND PRIORITIES FOR THE MALAYSIAN ECONOMY

Despite the setbacks from the COVID-19 pandemic, Malaysia is expected to continue exhibiting moderately strong growth potential over the medium term, supported by a diversified economy. With the global economy recovering post-pandemic, external demands and exports are also expected to rebound and contribute further to economic resilience. The ongoing pipeline of large-scale public transportation and digital infrastructure projects will also boost economic growth and attractiveness as a foreign direct investments (FDI) destination. Real GDP growth is projected to be between 4.5% and 5.5% p.a. during 2021 to 2023<sup>10</sup>, with Malaysia forecasted to cross into the high-income country threshold as early as the middle of this decade<sup>11</sup>.

For Malaysia to evolve with global megatrends, achieve its growth potential and transcend its status as a middle-income country, there are several priority areas that would require emphases – some of which have been exacerbated by the pandemic. Of these, there are two critical ones which the capital market can enable – the structural upgrade of the economy and the augmentation of the retirement savings landscape.

<sup>10</sup> *Fiscal Outlook and Federal Government Revenue Estimates 2021*, Ministry of Finance Malaysia, November 2020.

<sup>11</sup> *Aiming High: Navigating the Next Stage of Malaysia’s Development*, World Bank, March 2021.

## **2.2.1 STRUCTURAL UPGRADE OF THE ECONOMY: THE NEED FOR PRODUCTIVITY-DRIVEN GROWTH**

Since the early 2000s, the share of Malaysia's manufacturing sector, in particular the high-tech manufacturing sector, had been gradually declining as a percentage of GDP. However, this trend of deindustrialisation was not accompanied by a shift towards high value-added services, such as information technology and robotics. Instead, there was growth in the share of traditional services sectors such as wholesale and retail as well as food and beverages.

In addition, the past two decades also witnessed the continuous decline in labour productivity growth rates and increasing low-skilled foreign labour dependence within the existing economic sectors. As such, the Government has recognised the urgent need for a structural upgrade of the economy to deliver high value-added growth for the nation. In this regard, the next phase of Malaysia's economic transformation would be focusing on strong and meaningful shifts within the economy to be more productive and technology-driven. As the pandemic recedes in the future, this structural change will be critical to support Malaysia's longer-term economic growth and the livelihood of all Malaysians.

Today, Malaysia's dominant economic contributors are largely domestic-centric, resulting in its growth potential being constrained by its comparatively small market. To transform and grow, it is essential for the economy to cultivate and build internationally competitive, home-grown enterprises which are strongly embedded within global value chains, aided by high value-added technological developments to drive structural transformation.

This would require more effective resource allocation towards the internationalisation, digitisation and technological upgrading of Malaysian firms, especially unlisted MTCs. Today, the core intermediation of the savings-investment channel, dominated primarily by the banking system and government-linked investment companies (GLICs), has not been able to serve these segments of companies meaningfully. The conventional equity and bond markets mainly cater to listed companies, which contribute to only an estimated 15% of GDP<sup>12</sup>, resulting in a shortage of access to capital within the wider economy. To cater to the broader needs of enterprises in the economy, including MTCs and MSMEs, Malaysia would require a more inclusive capital market – one that provides a more comprehensive financing ecosystem across the spectrum of funding needs. To that end, the SC could strengthen the scale and maturity of the alternative markets ecosystem to cater for higher-risk capital and to see greater deployment of patient capital through market-based financing for national development.

## **2.2.2 FAST AGEING NATION: THE NEED TO AUGMENT THE EXISTING RETIREMENT SAVINGS LANDSCAPE**

By 2030, Malaysia is expected to become an ageing society, with people aged 60 and above making up 15% of the total population<sup>13</sup>. Structurally, this poses a challenge for the Malaysian retirement savings landscape. Currently, about 40% of the Malaysian population is estimated to be uncovered by any form of social protection, and many under the formal retirement system are expected to face insufficient funds for retirement. The future of work, brought forth by the pandemic, could also see significant growth in self-employment and gig economy workers – adding to the coverage challenges of the retirement savings system. In addition, the pandemic has also negatively impacted domestic household income, whereby a

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<sup>12</sup> Internal analysis, SC, 2019.

<sup>13</sup> DOSM, 2020.

## Diagram 1

### HOW FINANCIAL DEVELOPMENT CONTRIBUTES TOWARDS ECONOMIC DEVELOPMENT



Source: SC.

significant number of households have had to withdraw their retirement savings early to tide them through the economic crisis. If left unresolved, the growing gap between retirement savings and actual needs could lead to a drag on the economy in the coming decades, as the government is forced to step in to close the funding gap.

In addition, the Malaysian pension system, like most global pension systems, will see significant pressures to generate high returns from existing savings to meet future retirement needs. This is given the expectations of lower asset returns moving forward, evidenced by the decline of investment returns and discount rate assumptions by global pension schemes over the past decade<sup>14</sup>. The search for returns may drive retirement schemes towards investing in riskier alternative assets on behalf of their members or lead to members demanding to withdraw and invest their retirement savings in other instruments that offer better returns.

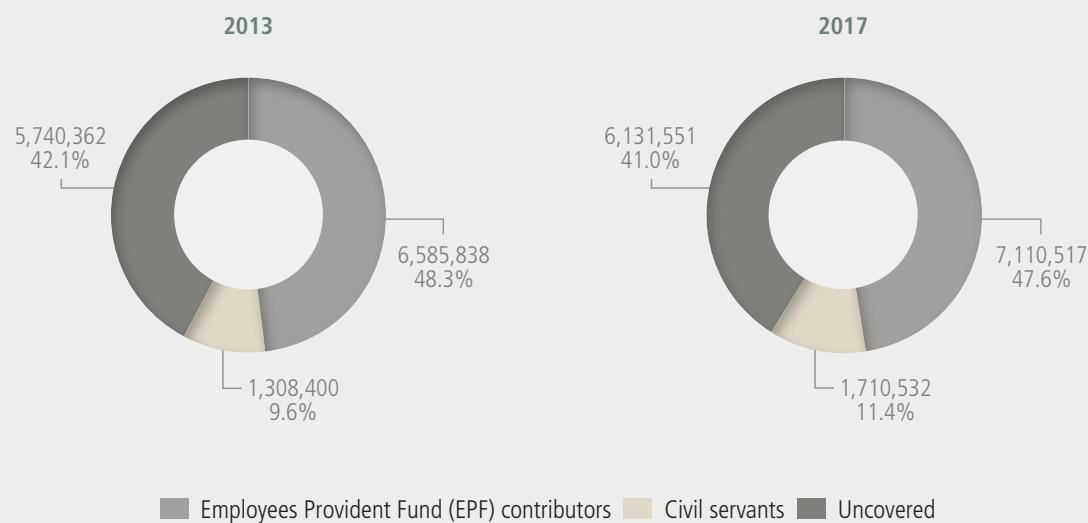
Moving forward, the current shortfall in retirement savings requires serious and urgent attention before it precipitates into a bigger problem in the future. At the same time, to encourage Malaysians to invest for their future to supplement their mandatory retirement savings, it is also imperative that the broader population of Malaysians are empowered to tap into alternative investment products according to their risk preferences. This will require a holistic approach to enhance investor literacy and awareness, investment access and options, investor confidence as well as investor protection in the capital market.

<sup>14</sup> *Investment Return Assumptions*, US National Association of State Retirement Administrators, July 2021; *Pension Accounting Trend*, PricewaterhouseCoopers UK, March 2021.

### Chart 11

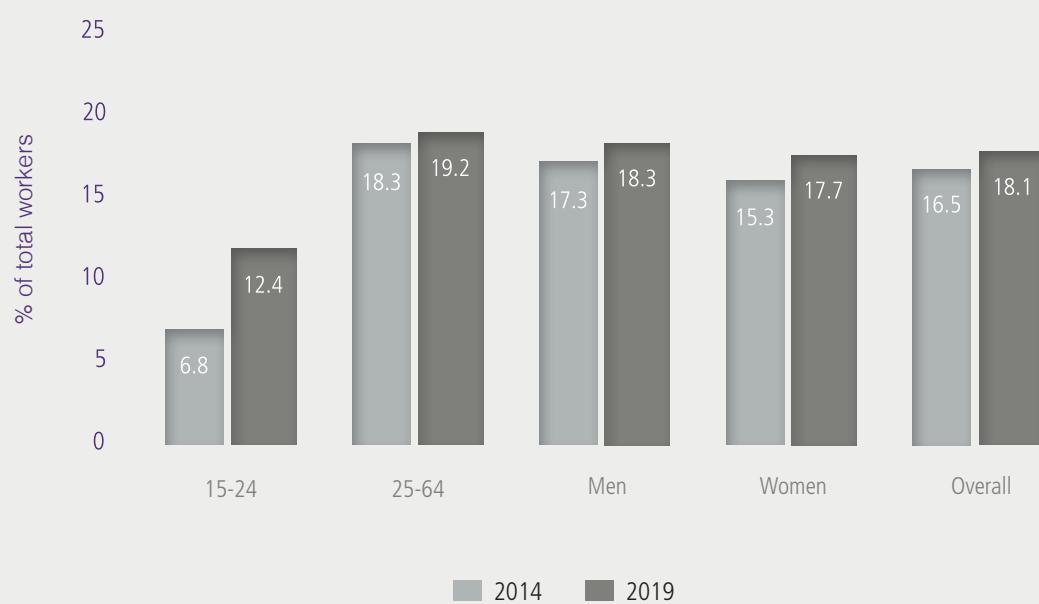
MALAYSIAN POPULATION WILL CONTINUE TO SEE CHALLENGES IN ADEQUACY OF RETIREMENT SAVINGS AS THE FUTURE OF WORK EVOLVES FURTHER

Share of 'uncovered labour force' in Malaysia, 2013 and 2017



Source: *Expanding Old-Age Income Protection to Informal Workers, World Bank Group Global Knowledge and Research Hub in Malaysia, Based on DOSM, EPF and Public Service Department, Amanina Abdur Rahman, Mark Dorfman, Achim, Schmillen.*

Share of own-account workers by age group and gender



Source: DOSM Labour Force Survey, DOSM, 2014, 2019.

## 2.3 THE FUTURE OF MALAYSIA'S CAPITAL MARKET

Over the next five years, the CMP3 aspires to see a capital market that grows in **relevance** with the upgrade of the Malaysian economy and its stakeholders. It will be more **efficient** in mobilising capital into productivity sectors of the economy, and will encourage greater **diversity** in the market – a multi-layered market, supported by a competitive and technology-enabled intermediation landscape, creating greater value for both investors and issuers.

**Diagram 2**  
OVERVIEW OF THE CMP3

### Desired outcomes for the capital market



### Development thrusts



### Regulatory thrusts

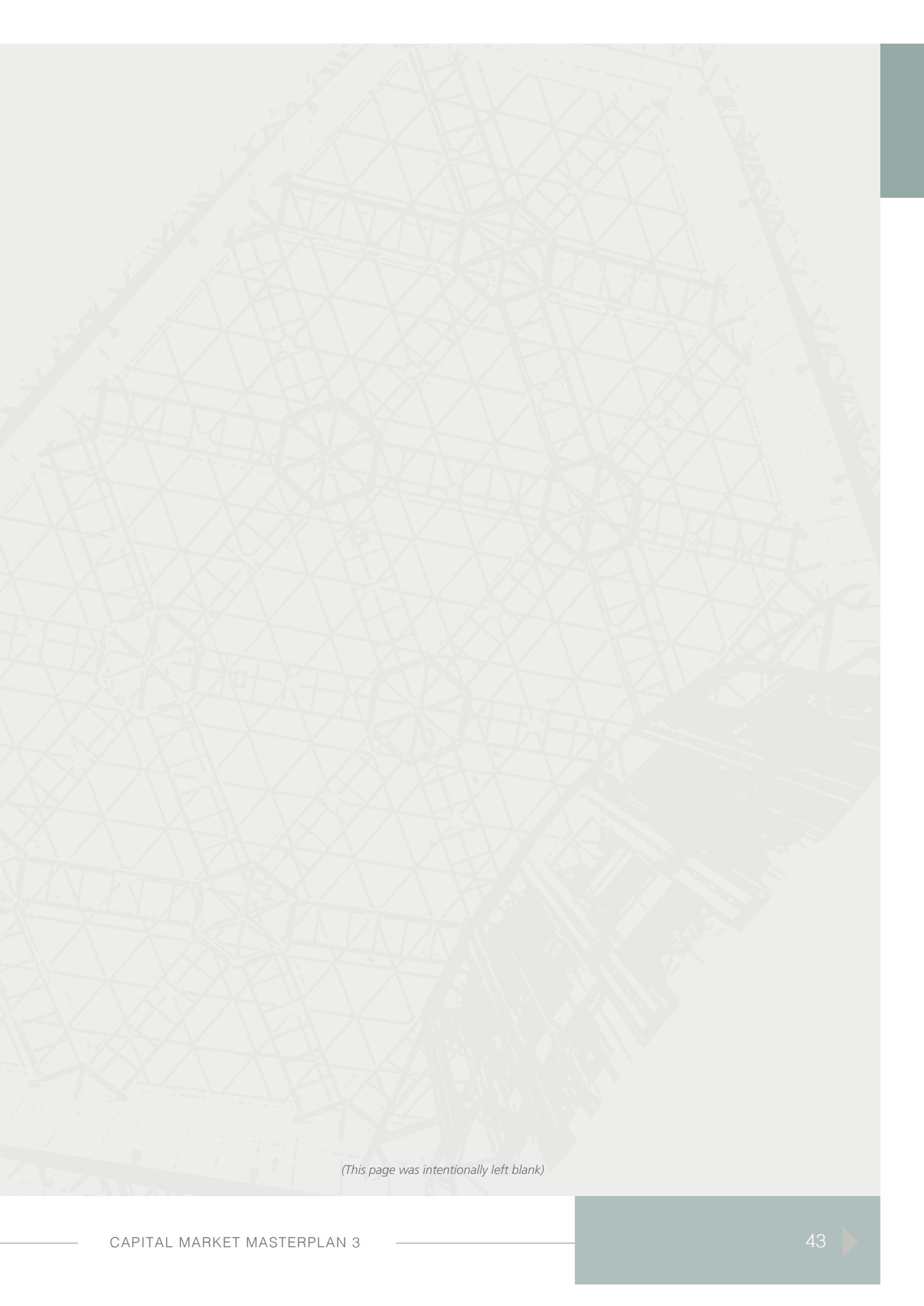


This would be underpinned by three key development thrusts, which aim to facilitate a capital market that:

- **Catalyses competitive growth** with greater fundraising efficiency for companies across their business lifecycle, enabled by competitive markets and intermediation.
- **Empowers investors for a better future** with accessible and quality investment advice and greater diversity for emerging needs through a digitally inclusive ecosystem.
- **Shapes a stakeholder economy** with effective capital mobilisation through SRI and ICM solutions to sustainable, responsible and stakeholder-oriented businesses.

In tandem, three key regulatory thrusts have been set out to enable a regulatory approach that:

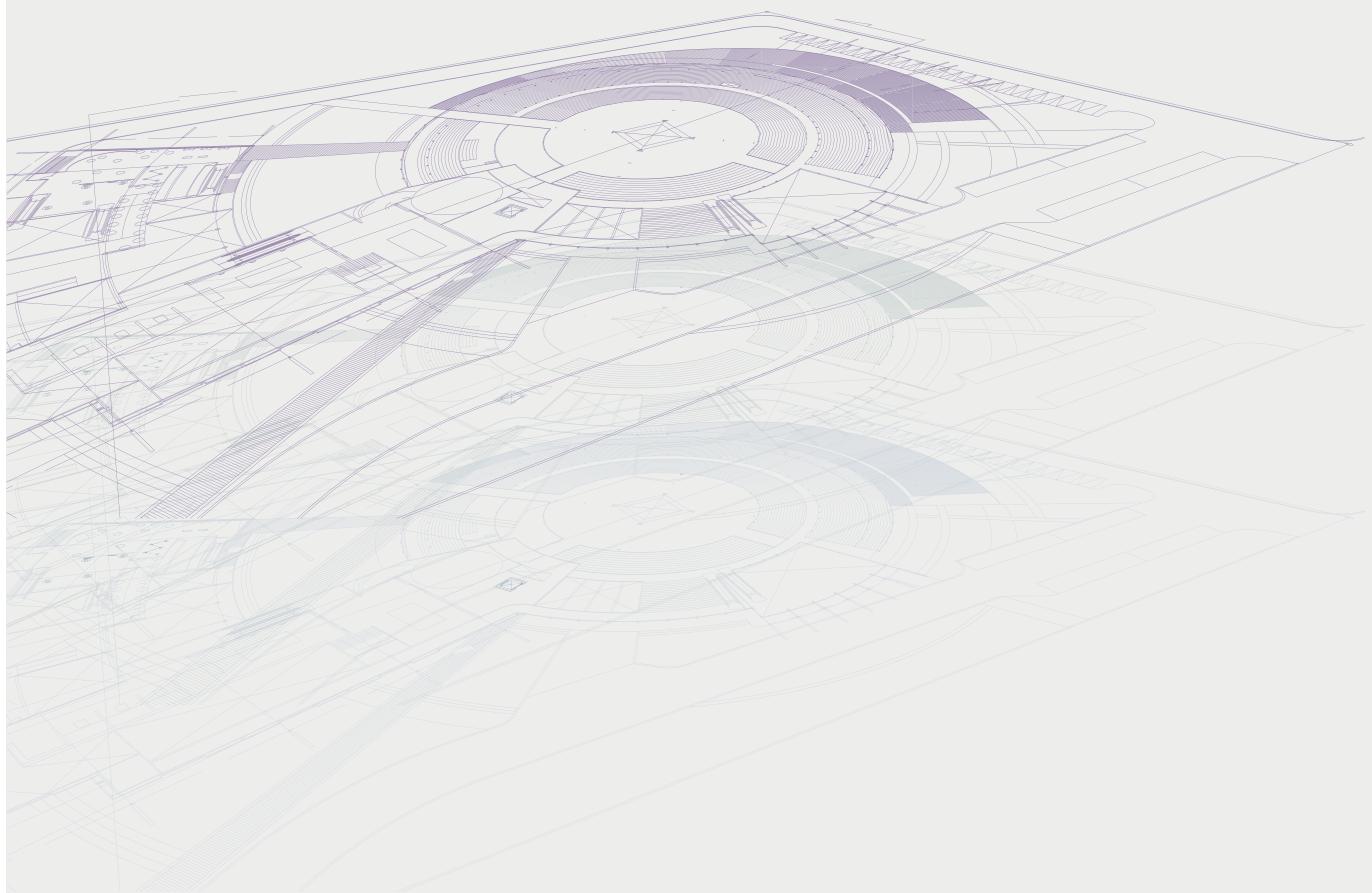
- **Embeds shared accountability in the capital market** to promote responsible businesses, industry self-regulation and investor advocacy, underpinned by principles-based regulations.
- **Prioritises efficiency and outcomes** in protecting investor vulnerabilities, with a fit-for-purpose regulatory architecture as well as effective supervisory and enforcement approach.
- **Embraces the digital age** with the industry, as they navigate through RegTech and emerging technology risks, while enhancing the SC's digital capabilities.



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## CHAPTER 3

# ENABLING A MORE RELEVANT, EFFICIENT AND DIVERSIFIED MARKET



# CHAPTER SUMMARY

1

Catalysing competitive growth



Enable funding to *competitive* businesses to push the frontiers of the economy



Facilitate a multi-layered market to build a more *competitive* value proposition for market participants



Facilitate diversity in the intermediation landscape for healthier *competition* in the market



Expand risk intermediation for more *competitive* growth

2

Empowering investors for a better future



*Empower* with more options to diversify, for wealth accumulation, preservation and decumulation



*Empower* with higher quality and more accessible advisory, to complement varying levels of investment literacy



*Empower* with efficiency, from ease of information to efficient processes, to augment the investor experience



*Empower* for digitisation, to bring more investors along the digital journey

3

Shaping a stakeholder economy with SRI and ICM



Enable greater capital mobilisation to businesses that create value for *stakeholders* of the economy



Expand the reach of ICM to the broader *stakeholders* of the economy



Collaborate and innovate with broader *stakeholder* groups for a more sustainable growth

### 3.1 CATALYSING COMPETITIVE GROWTH

Malaysia's transformation to become a high-income economy will need to be driven by dynamic entrepreneurs and companies with a strong presence in regional and global value chains. The capital market plays an integral role in providing tailored and effective funding options to catalyse the growth of such companies across every stage of their development. At the same time, efficient fundraising avenues need to be supported by deep secondary markets, to allow orderly exits and attract participation from investors. The SC envisions a multi-layered capital market with a competitive ecosystem of market institutions, intermediaries and other participants to meet the diverse needs of issuers and investors. This section outlines the development considerations and plans to enhance fundraising efficiency for Malaysian companies at various stages of growth, and enable the competitiveness of the markets and the intermediation landscape over the next five years.

#### THE STATE OF PLAY

MSMEs form the current growth engine of the Malaysian economy, contributing ~60% of GDP.<sup>1</sup> However, they remain relatively underserved with regard to the availability of suitable financing options, with an estimated RM90 billion financing gap<sup>2</sup> for MSMEs alone.

The end of the last decade saw new alternative financing avenues, enabled by digital capabilities, stepping in to partially fill this gap. Complementing traditional VC and PE firms, new platform-based fundraising models, such as ECF and P2P financing, have emerged. While the size of these markets are still relatively small and fundraising activities remain concentrated around the Klang Valley, they have gained strong traction in catering to selected segments of MSMEs and look poised to broaden their reach to serve more issuers.

MTCs, on the other hand, have outgrown existing financing avenues for MSMEs, but are still too small for traditional public markets. Currently, MTCs are heavily reliant on banks, and to some extent, PE firms, but might require more sophisticated and bespoke financing options to make the leap to the next stage. This segment of companies will be a key development focus for the SC in the coming years to offer financing options that will enable them to accelerate their growth, including potential expansion to other business verticals or overseas markets.

Compared to the abovementioned alternative market segments, which still have considerable room to grow, the traditional public equity and corporate bond markets are ripe for transformation. In recent years, the declining value of IPOs in the public market has resulted in annual equity fundraising activities being primarily dominated by secondary issuances. Corporate bond issuances remain popular among banks, larger corporates and infrastructure project companies with credit ratings of AA and above, but have become too cost prohibitive for companies with smaller needs or of a higher-risk profile.

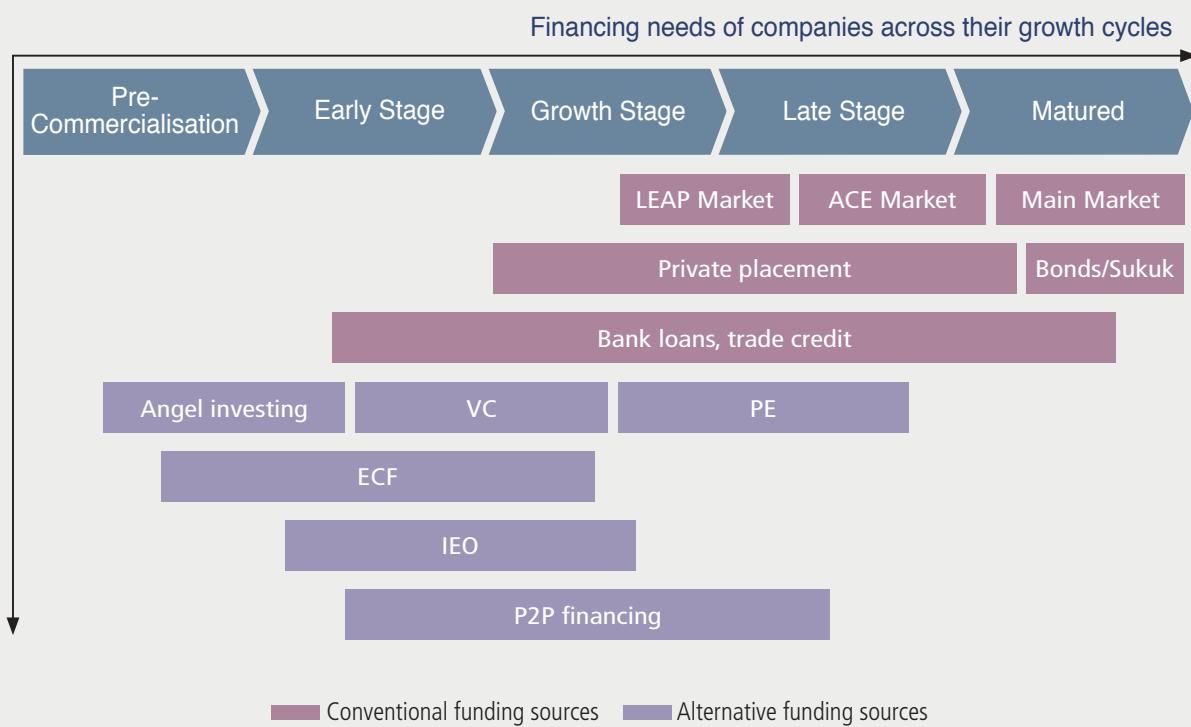
Apart from the COVID-19-driven rally and explosion of renewed interests from retail investors in 2020, trading activities on the secondary equity market have been largely subdued over the past decade. Long-only large institutional investors have helped maintain liquidity in the market and acted as a stabilising factor for price movements. Meanwhile, traditional market participants, operating through legacy infrastructure, serve investors with one-size-fits-all offerings. The secondary market for corporate bonds is in a similar state, remaining the realm of large institutional investors served by brokers, some of whom are still quoting prices and executing trades through traditional methods such as telephones.

<sup>1</sup> Internal analysis, SC, 2018.

<sup>2</sup> *MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets*, International Finance Corporation, 2017.

While the trading volume on the derivatives exchange has more than doubled in the last decade, fuelled by increased foreign participation, this is largely attributed to the benchmark crude palm oil futures (FCPO) contract. Most other exchange-traded derivative contracts have not seen significant growth. OTC derivatives for hedging, predominantly in currency and interest rates, still remain almost exclusively the domain of banks with little transactional transparency to other capital market players.

**Diagram 3**  
THE FUNDING ESCALATOR ACROSS THE GROWTH CYCLE OF COMPANIES



Source: SC.

## STAYING AHEAD OF THE CURVE

As the economy recovers from the effects of the pandemic, the emphasis now shifts towards 'building back better', where resources will be focused towards strategic sectors to reposition the nation for the future. Collectively, these present significant opportunities for domestic businesses to scale up, diversify and grow, with access to financing being crucial to their success.

For the capital market, the need to have more tailored financing options, appropriate for each stage of a company's growth cycle and suited to its specific needs, has never been greater. As such, it is imperative to develop a deeper understanding of issuers' needs, greater insights for each sector, better appreciation of pricing risks, and greater efficiency in completing fundraising exercises. While the SC has facilitated the introduction of innovations in financing models, markets and intermediaries, there is still a sizeable gap to be addressed collectively. Incumbent market participants should also re-examine their offerings and operating models to ensure that they remain dynamic and relevant when faced with fast-shifting market demands.

From a broader context, the success and competitiveness of the public equity and bond markets remain a bellwether for the overall health of the capital market. On the global stage, innovation in the public markets, whether in primary fundraising or secondary market trading, has continued, particularly amid the growing trend of private companies staying private for longer. However, the public markets still possess the deepest pools of liquidity for fundraising, and when tapped effectively, can benefit a wider segment of issuers beyond just the largest corporates.

At the same time, the race for global liquidity has become increasingly competitive. Investors domestically and abroad are becoming increasingly sophisticated, with access to more asset classes and investment options, and are armed with greater insights than ever before. The advent of digital age has also changed their expectations and behaviour. Secondary market trading venues, as well as their participants, need to evolve accordingly to remain relevant. Digital technologies have also enabled renewed innovation in all aspects of the secondary market value chain from market data, research and trading to post-trade processes, across all asset classes. It is vital that domestic intermediaries also keep pace to sustain the interest of investors and remain relevant in the face of competition.

## STRATEGIC CONSIDERATIONS

### 3.1.1 PUSHING THE FRONTIERS OF THE ECONOMY

#### A. SEEDING INNOVATION WITH EARLY-STAGE FINANCING

Early-stage financing is critical in providing funding for entrepreneurs to test and start their business. While traditionally these entrepreneurs would bootstrap themselves, or rely on friends, families and close contacts for funds, there are now other avenues available, such as angel investors, ECF and early-stage VC funds.

For companies seeking funding at the earliest stage, a typical challenge is the ability to estimate and mutually agree on a valuation for the company, particularly when there is little track record or the company may not be ready to commercialise its ideas. To enable deals to be completed faster and with less due diligence burden, entrepreneurs and investors may choose to use instruments such as simple agreement for future equity (SAFE) notes, which postpones the question on valuation to a future fundraising round. SAFE Notes as well as other similar instruments have become prevalent in global VC markets. The SC will continue to work with the early-stage fundraising community to provide greater regulatory clarity for such instruments as well as derive standards for the local market, which will protect the interests of both issuers and investors.

Secondly, given the high risks involved in early-stage financing, the presence of a credible cornerstone or lead investor willing to put up the initial share of capital in such deals strongly increases the confidence of other investors to also put in funds, thereby increasing the chances of success in fundraising. Investors in this segment also tend to act in groups in order to diversify their risk. To formalise such arrangements and provide incentives for more skilled angels, particularly those with an established investment track record, to act as lead investors, the SC may explore establishing a framework for Angel Funds and Angel Syndication Lists. These skilled lead investors may act akin to a General Partner in a VC fund and take the lead in vetting deals and nurturing investee businesses in exchange for a larger share of returns. Other investors can pool funds with the lead investor to build up a larger pool of capital for greater bargaining power. Through this, investors who are interested to invest in this segment, but may not have the necessary expertise or time to dedicate to research, would have an avenue to participate by leveraging the expertise of a credible lead.

## B. SCALING UP WITH GROWTH-STAGE FINANCING

As companies enter the next stage of growth, they may seek to scale up their businesses and operations, whether domestically or by expanding abroad into new markets. Ticket sizes of growth-stage funding rounds will be correspondingly larger as such companies begin to compete against larger incumbents or well-funded competitors from other markets. Of the top 20 Malaysian startups that have reached this stage in the last decade, most typically seek funding from foreign funds<sup>3</sup>, as most domestic VC and PE management firms currently lack significant scale, fund size and risk appetite. The lack of market depth and appetite for riskier investments among local corporates and institutional investors handicap the ability to finance growth-stage companies domestically, or worse, result in deals being done at depressed valuations. As such, Malaysia sees reduced ownership of such businesses as they grow into regional or global champions.

To strengthen growth-stage financing in Malaysia, participation from institutional investors such as pension funds, insurance companies, investment institutions and corporates is key. To bridge this gap, co-investments may serve as a good mechanism for risk-sharing between institutional investors, and could crowd in further market participation. Various government-led co-investment models seen domestically and globally have been set up to catalyse public and private co-investments through private markets. Such models not only serve to align development to the country's growth thrusts, but also to develop the domestic VC and PE industries and their talent. In this respect, the SC will continue to work alongside relevant agencies and investment entities in Malaysia to develop VC and PE talent onshore and shape the growth of domestic VC and PE players. Larger institutional investors such as pension funds and insurance companies can also adopt similar co-investment models with partner VC and PE funds.

Large enterprises are essential ecosystem partners in spurring innovation. Corporate venturing is increasingly a common practice for businesses to stay abreast of technological developments and stay ahead of the competition. Such programmes do vary, ranging from vendor technology demonstrations to more structured incubation, partnerships and investment programmes. Successful corporate venture programmes benefit investee companies in many areas beyond funding. In most cases, these corporates become reference clients for investee companies, thereby providing strong credentials for investee companies to approach other potential clients or partners. Investee companies may also gain access to the corporates' wide network of clients and suppliers as well as a wealth of accumulated data. In return, corporates may gain access to new capabilities, market insights or technologies, instead of developing these organically. This symbiotic relationship can be an effective catalyst towards a more vibrant innovation ecosystem.

Educational programmes could be explored to promote awareness and educate business leaders on the approaches and benefits of corporate venturing. Existing incentives intended to promote VC and startup investments in general may be reviewed to enable corporate partnerships and co-investments. New incentives and promotional programmes may also be introduced to attract credible ecosystem partners such as incubators, accelerators and venture builders to build a bridge between startups and potential corporate partners. Programmes promoting FDI may also include a focus on creating business opportunities for startups through partnerships, investment or innovation programmes. This is an area that requires collaboration between stakeholders in the broader ecosystem. The SC will continue to work with relevant stakeholders and contribute towards a collective effort in building a more vibrant ecosystem.

<sup>3</sup> Crunchbase; Internal analysis, SC, 2020.

## C. ENABLING GREATER EFFICIENCY IN THE EQUITY MARKET FOR LATE-STAGE FINANCING

The public equity market provides an avenue for private companies in late-stage growth to fund their next stage of expansion and offer the option for private investors to exit. Although the overall value of IPOs has declined over the last decade, the number of late-stage growth companies that have listed on the LEAP and ACE markets have more than doubled over the same period and constitute 80-90% of the total IPOs. As the private market grows, there is potential for a much larger pipeline of late-stage growth companies that may seek to tap into the public market. To cater for this, there will be a need to increase the efficiency of the listing process and enable more listing options beyond IPOs.

Most late-stage growth companies entering the LEAP and ACE markets have been small to mid-cap in size. However, the pool of recognised principal advisors (PAs) which cater to this segment of companies is relatively small. To better enable Malaysia's profile of late-stage growth companies, there is a need to gradually expand the pool of PAs and approved advisors to include a variety of firms such as smaller advisory firms, specialised legal firms, and in the longer term, foreign-based PAs. This expansion of advisors will need to be accompanied by capability development programmes, to ensure that these advisors can play an effective role in gatekeeping due diligence for IPOs.

To enable greater listing efficiency moving forward, companies listing on the ACE market will see a more streamlined regulatory framework. Efforts are already underway to migrate the ACE market regulatory framework, including registration of prospectuses, to Bursa Malaysia. This will pave the way for Bursa Malaysia, as the single approving authority, to enable a more efficient approval process for companies listing on the ACE market.

Beyond IPOs, there are various alternatives for MSMEs and MTCs to benefit from the public markets. This can range from Special Purpose Acquisition Companies (SPACs) to listed closed-end fund structures such as business development companies (BDCs) in the US and investment trusts in the UK. Such structures will enable the broader public to participate in funding high-growth companies with the necessary measures for investor protection.

SPACs are special purpose entities led by experienced promoters to raise funds from the equity market in order to acquire businesses in their relevant areas of expertise. This provides target companies with a cheaper and faster route to the public market compared to IPOs. Against growing demand for such vehicles for high-growth companies, the current SPAC framework is being reviewed for greater efficiency.

BDC, Investment Trusts or other variants of listed closed-end funds are innovative structures that raise funds from the public market and channel them to a portfolio of private companies in the form of equity or debt-based financing. Such listed structures allow for greater transparency and governance over the management of these funds, while enabling retail investors access to an asset class which is currently only accessible to institutional and sophisticated investors. The SC will continue to evaluate these alternative options beyond the traditional IPO process to enhance the efficiency of the equity market for late-stage financing.

## D. FACILITATING BOND MARKET ACCESS FOR SMALL AND MID-SIZED ISSUERS

For the bond market to be more inclusive, there is a need to address various structural factors. The corporate bond market is dominated by large corporate issuers, primarily consisting of companies in the banking, property and infrastructure sectors. Participation by small and mid-sized issuers with an issuance size of less than RM250 million remains limited. Smaller bond issuances with a rating of A and below, face a higher cost relative to funds raised and a lack of appetite from institutional investors – most of which have mandates for bonds with higher creditworthiness. In addition, the bond market ecosystem has remained largely status quo over the last decade. To cater to small and mid-sized issuers, the bond market ecosystem will require disruptive innovations, including alternative venues or platforms with unconventional issuance processes and credit rating mechanisms. Such innovations may result in better cost efficiencies and eventually facilitate more issuers to tap into the bond market.

Besides relatively high fees *vis-à-vis* funds raised, smaller companies issuing bonds are subject to higher risk and liquidity premiums. These higher risk and liquidity premiums further add to the issuance cost as investors would demand higher yields for such bonds. This arises due to the small pool of investors with the appetite for higher-risk bonds. To encourage broader investor segments to participate in smaller bond issuances, there may be a need to consider different mechanisms in the market which allow credit enhancements for MTCs or credit hedging for investors. These mechanisms may allow investors to reduce their credit risks or ensure greater credit protection. This in turn may encourage greater liquidity for lower-rated bonds, thus unlocking access to more competitively priced liquidity premiums for lower-rated issuers.

Experience in other jurisdictions show that the availability of alternative bond marketplaces augurs well for the development of the deep and liquid secondary bond market. The modalities deployed by other jurisdictions include the ‘electrification’ of OTC trading to improve price discovery, as well as marketplaces that warehouse the bonds’ credit risks and split them into tranches before distributing the risks to a broader group of investors. Such marketplaces can add diversity to the current bond market intermediation landscape and enable an ecosystem that is more inclusive for small and mid-sized companies.

### 3.1.2 ENABLING A MULTI-LAYERED MARKET

In recent years, there has been an emergence of alternative marketplaces with innovative business models and instruments, such as ECF, P2P financing, DAX and IEO platforms. Each of these provides new avenues for fundraising and investment. Such marketplaces were only made possible through advances in technology, which enables a platform-driven approach to serve issuers and investors. These marketplaces provide direct and swift market access as well as a more efficient cost structure for issuers and investors.

There are various types of marketplaces as outlined in Diagram 4 – each offering distinct value propositions to specific issuer and investor segments.

#### Diagram 4

#### ALTERNATIVE MARKETPLACES CAN ENABLE GREATER VALUE PROPOSITION FOR THE CAPITAL MARKET (ILLUSTRATIVE)



Source: SC.

Alternative fundraising marketplaces cater to specific issuer segments, such as early stage and growth stage companies. These companies have different business models and risk profiles, which may require seed capital, working capital or capital for growth. The current ECF and P2P financing platforms in Malaysia are examples of such marketplaces, with IEOs on the way to offer further options for innovative digital businesses. Within the region, some incumbent exchanges or alternative venues have already established dedicated marketplaces, which adopt a different regulatory approach and listing rules that cater to new issuer segments. One such example is Bursa Malaysia's launch of the LEAP market in 2017. The SC had taken a proportionate regulatory approach to this space, aiming to facilitate innovation while also managing any emerging risk. While the market has started with smaller-size fundraising to limit the investment risk, these platforms may scale to larger-size fundraising and cater to a wider range of issuers and investors as they become more familiar with these financing models and instruments.

Globally, public equity investors, whether institutional or retail, have become increasingly sophisticated, demanding faster and lower-cost access to data and markets as well as the ability to execute more sophisticated trading strategies. To cater to such investor needs, alternative equity trading marketplaces have emerged with differentiated equity-related product offerings, pricing structures and order types. Some specialise in offering low friction, no-frills and low latency proposition for cost-sensitive and speed-sensitive trading firms, while others have differentiated product offerings such as innovative ETFs and depositary receipts – all of which allows investors broader access to adjacent or derivative equity products. The SC will explore with incumbents and new market operators to further enrich the domestic equity product range to cater to diverse investor needs.

Beyond equities, there are other marketplaces which offer broader trading opportunities in other asset classes, including bonds and derivatives, which are today largely OTC. In more developed markets, there are trading venues that facilitate 'electronification' of OTC trading, including the provision of multi-dealer-

to-client platforms, which improve price transparency and liquidity while enhancing trading efficiency through the digitisation of OTC trading workflow. The ‘electronification’ of these asset classes has also created new opportunities to broaden their appeal to new issuers and investors. At the same time, new instruments such as digital assets have also emerged, capturing the imagination of a new generation of investors. Moving forward, as trading platforms for alternative assets become more prevalent, the SC may continue to facilitate such platforms where there are proven value propositions for the Malaysian market.

### 3.1.3 FACILITATING DIVERSITY OF THE INTERMEDIATION LANDSCAPE

The intermediation landscape in both equity and bond markets in Malaysia has largely remained homogeneous over the last decade. In the equity market, a majority of securities brokers maintain the universal stockbroking model which provides research, trading as well as clearing and settlement services. Bond market intermediation has remained largely traditional and manual with the banks.

In comparison, markets globally have seen the emergence of new intermediary models and specialisation, which caters to changing investor needs. For example, demand for more independent and insightful equity research has resulted in the emergence of research marketplaces and non-traditional research providers. The increasingly complex trading needs, coupled with rapid changes in trading technology, have driven growth in algorithm and AI trading. Similarly, growing demand for no-frills and cost-efficient trading access has driven the growth of execution-only or digital-only equity brokers. Meanwhile, greater demand for post-trade efficiencies has driven the growth of clearing-only entities or utilities. In the bond market, demand for greater efficiencies and transparency has driven the growth of digital bond issuances, workflow digitisation platforms, e-OTC trading platforms, AI-based credit rating services and other new innovations.

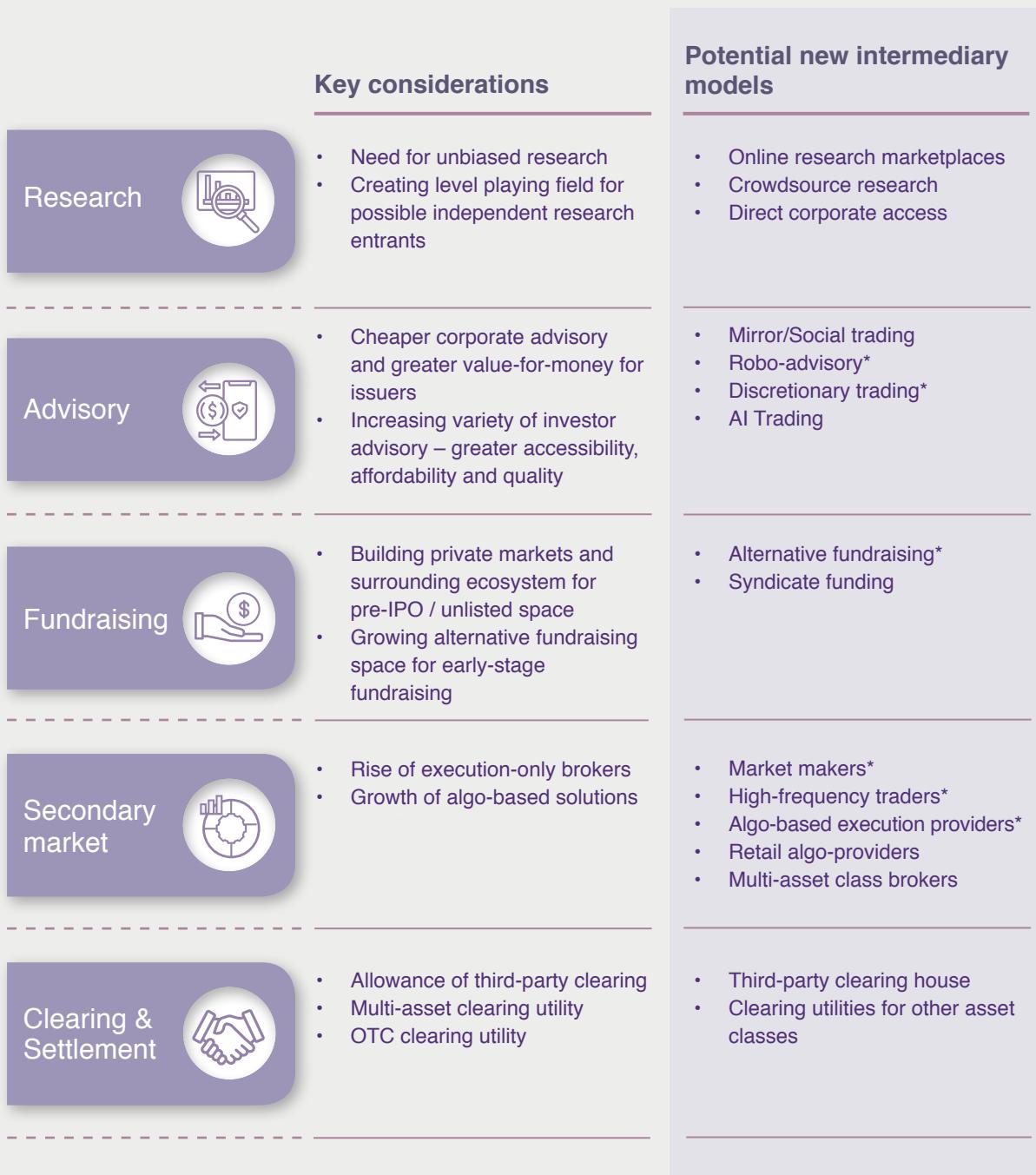
In line with global trends, efforts are currently underway within the Malaysian landscape to allow for the separation of trading and clearing membership. This will pave the way for the entry of more specialised and capital-efficient intermediary models, including digital-only or execution-only brokers, algo-based brokers, multi-asset brokers and clearing-only institutions. Diversity in the intermediation landscape may spur capital market innovation and bring greater value to Malaysian investors. (Diagram 5)

Market makers are an integral part of the ecosystem to improve market efficiency and provide greater liquidity, especially for less traded and less liquid stocks. Efforts were made in the past to enhance this segment of the ecosystem, which includes the expansion of the qualifying criteria for the participation of foreign entities and the introduction of a new category of market makers. Further enhancement of the market making framework may be vital to drive greater liquidity and market vibrancy.

Market makers rely on the pool of Securities Borrowing and Lending (SBL) shares to hedge their positions, such as for structured warrants, single stock futures and ETF. However, the activities have been mostly nascent, with only 218 stocks available for SBL activities and total lending of RM3.3 billion as at December 2020. With a limited number of intermediaries offering the service and a small pool of available securities, the cost of lending and borrowing remains relatively high. Further evaluations may be conducted to expand the current SBL framework to enhance participation and market vibrancy. This can be achieved by expanding the pool of available securities and increasing the number of participants through the enhancement of the Central Lending Agency model. Greater awareness of the scheme’s benefits will also need to be championed and marketed to the investing public.

## Diagram 5

### POTENTIAL FOR DIVERSIFICATION AND COMPETITION IN THE MALAYSIAN INTERMEDIATION LANDSCAPE (ILLUSTRATIVE)



\* Present in the Malaysian market today.

Source: SC.

### 3.1.4 EXPANDING RISK INTERMEDIATION

#### A. BROADEN MARKET PARTICIPATION FOR GREATER MARKET DYNAMISM

Against the backdrop of global growth in commodities trading, foreign participation in exchange-traded FCPO has increased, with greater trading activities from non-traditional participants such as commodity funds and algo traders. As the global benchmark for crude palm oil (CPO) price, Malaysia continues to be the destination for most players to hedge against CPO price movements. Against the backdrop of greater competition from global derivatives markets, it is imperative that Malaysia remains competitive.

Global participants who demand greater trading speed and more efficient costs are increasingly looking for direct access to exchange-traded commodities, including FCPO. To cater to this, the SC will explore a framework to enable remote membership of the Malaysian derivatives market, starting with the trading participants. This will facilitate a broader range of global players licensed in identified jurisdictions, including liquidity providers, to have direct access to the derivatives market without the need for costly interbroker relationships and heavy capital outlay to set up operations in Malaysia.

Along with the expansion of foreign participation, there is also a need to diversify the local intermediation landscape to better enable investors to hedge or participate in the derivatives market. In addition to banks, the onshore presence of specialised interbroker-dealers can provide local corporates or investment institutions, who currently lack hedging familiarity or capabilities, with customised or hybrid hedging solutions that encompass both OTC and exchange-traded derivatives. Besides this, services such as discretionary futures trading can enable more investors to gain exposure to the derivatives market through brokers with the necessary expertise. Such services stand to benefit from the enhanced discretionary trading framework, which has been operationalised in 2021.

With greater investor sophistication in the derivatives market, there may be growth in other specialised services along the derivatives trading value chain, enabled by technology. This includes non-traditional data and analytics service providers, algo-based brokers, proprietary traders as well as digital services which automate back-office operations. In this regard, the SC will also embark on developing the talent pipeline to support the growth of the intermediation landscape. This includes facilitating training or development programmes and partnerships, including with the community of local trading participants (Locals).

Along with the intermediation landscape, marketplaces too are evolving. To keep up with investor demand for trading speed and efficiency, derivatives exchanges globally have invested in technology to enable 24-hour trading, digitise post-trade processes and more. Similarly, alternative marketplaces with niche technology or product propositions have emerged, and OTC derivatives markets have seen greater 'electronification', transparency and competitiveness. In this respect, the SC will continue to engage the industry to explore growth opportunities in the local marketplaces and attract a diverse range of market participants to enable a more vibrant derivatives market.

## Diagram 6

### STRENGTHENING THE ECOSYSTEM FOR RISK INTERMEDIATION



Source: SC.

## B. DIVERSIFY SUITE OF PRODUCTS IN EXCHANGE-TRADED DERIVATIVES

Efforts to attract a broader range of market participants will need to be accompanied by greater diversification of derivatives product offerings onshore. This includes the need to broaden the suite of commodity derivatives products, such as agriculture-based products and currency hedging products, to become a trading destination for global commodity traders.

In addition, the SC sees opportunities to further expand the range of exchange-traded financial and equity derivatives, including cross-listed index futures and new interest rate futures, to complement the OTC market. Although most corporate hedging activities on currency and interest rates are predominantly conducted through banks in the OTC market today, exchange-traded derivatives can provide lower-cost alternatives and lower counterparty credit risk for corporates. In the future, as domestic corporates and investment institutions strengthen their risk management capabilities, more may tap into exchange-traded financial and equity derivatives to better manage risks.

Retail participation within the derivatives market is only a fraction of the pool of retail investors in the equity market. This is due to derivatives trading being more complex and would typically require investors to have a certain degree of knowledge and sophistication. Notwithstanding this, both foreign and local retail participation, excluding the Locals, make up between 20% and 30%<sup>4</sup> of the trading volume of the

<sup>4</sup> Source: Bursa Malaysia, 2020.

Malaysian derivatives market annually. To cater to this segment of the market, there may be a need to enable products with relevant underlying assets and contract sizes, including mini futures contracts. This will also need to be accompanied by efforts to enhance awareness of retail investors about derivatives trading and drive greater digitisation for the derivatives industry as well as talent development programmes by SIDC.

## 3.2 EMPOWERING INVESTORS FOR A BETTER FUTURE

In addition to becoming a high-income economy, Malaysia is also edging into an ageing nation status in the coming decade. These are among the key factors that will shape the financial well-being and retirement needs of Malaysians. As such, Malaysians will need to be empowered as they look to accumulate wealth and prepare for retirement. This includes having the knowledge to invest, information to make decisions, access to products and services as well as options to compare and diversify – all of which are powerful components of the investor experience that will shape the future. Market intermediaries must offer a seamless, convenient and safe investing experience. This section looks at the development needs over the next five years to better empower Malaysian investors to invest for their future.

### STATE OF PLAY

A sizeable segment of the Malaysian population lacks adequate savings for retirement. Of the total labour force in Malaysia, only 48% rely on their EPF savings as the main source of income for retirement. Many self-employed Malaysians, constituting ~41% of the labour force are not covered by existing social protection programmes<sup>5</sup>. Of the active EPF members, ~68% do not have the minimum basic savings of RM240,000<sup>6</sup> for retirement, and 70% of those aged 54 and above have less than RM50,000<sup>7</sup>. This is the result of low levels of financial and investment literacy, the lack of retirement planning as well as various socio-economic factors. Some Malaysians have indicated the need for financial advice or assistance to prepare for retirement<sup>8</sup>. However, many still display short-sighted tendencies with regards to setting aside savings to meet future needs or emergency expenses<sup>9</sup>.

The intermediation of savings in Malaysia is largely conducted through GLICs, followed by banks and the asset management industry. GLICs, which intermediated ~53% of private savings between 2013 and 2019<sup>10</sup>, have undertaken various efforts to encourage greater retirement savings. This includes enabling retirement advisory services, broadening investment products and channels such as micro-investing and top-up options, as well as catering to the broader informal sector such as gig workers and housewives. With a large majority of Malaysians taking up deposit products compared to investment products, banks intermediate ~31% of private savings while the asset management industry<sup>11</sup> intermediates ~16% of private savings.

<sup>5</sup> Based on data from DOSM, EPF and Public Service Department, 2017.

<sup>6</sup> RM240,000 is the recommended basic savings by EPF. This is equivalent to an income of RM1,000 a month for 20 years post-retirement, which is based on the current minimum monthly public pension of RM1,000 and the average life expectancy post-retirement.

<sup>7</sup> *Social Protection Insight: A Better Tomorrow*, EPF, 2018.

<sup>8</sup> *Retirement Preparedness and Productive Ageing Among Government Employees and Retirees in Klang Valley*, Malaysia Institute of Ageing, Kumpulan Wang Persaraan (Diperbadankan) (KWAP), 2018.

<sup>9</sup> *Financial Capability and Inclusion Demand Side Survey*, BNM, 2018.

<sup>10</sup> BNM; SC; Annual reports of GLICs, including EPF, Permodalan Nasional Bhd (PNB), KWAP and Khazanah, 2013-2019.

<sup>11</sup> Excluding figures from PNB.

The asset management industry is anchored by large banks and insurance-backed entities that are dominant in unit trust funds and are often backed by a strong agency workforce. Some market participants have partnerships in their distribution model to enable portfolio-based offerings for their clients, replacing established product-centric sales model. Platform-based fund distributions have also emerged in recent years along with robo-advisors or DIMs. While investors on such digital platforms have grown, for example, account opening on DIMs grew by more than eight times in 2020<sup>12</sup>; this remains a small segment of the overall market.

Within the industry, funds still mainly invest onshore (72% of industry assets), and in traditional asset classes such as equity, fixed income and money markets (89% of industry assets)<sup>13</sup>. Notwithstanding, growing investor demand for investment diversification has resulted in the growth of foreign funds and funds investing in alternative asset classes. Underpinned by liberalisation measures<sup>14</sup>, industry assets allocated outside Malaysia have grown by a CAGR of 15.6% between 2012 and 2020, which is close to three times the growth in total assets over the same period<sup>15</sup>. Meanwhile, allocation to alternative assets such as private securities and unquoted securities have grown by 5.1% CAGR<sup>16</sup>.

## STAYING AHEAD OF THE CURVE

The abovementioned observations of the asset management industry reflect the growing diversity and sophistication among Malaysian investors – from the perspective of financial and investment literacy, advisory needs, investment sophistication, income levels, risk appetite and preferences in investment channels. These emerging need will continue to change on the back of various shifts – domestic demographic changes, Malaysia moving into a high-income nation status<sup>17</sup>, growing interest in SRI and the continued search for yield. This is further amplified by the advancement of data and technology, which reshapes how insights are derived, decisions are made and services are delivered. Moving forward, Malaysia needs an investment ecosystem that is diversified – one that caters to the different needs of Malaysian individuals and businesses.

As an individual ages, their wealth accumulation or preservation-centric portfolio might require recalibration to enable wealth decumulation for retirement – as outlined in Diagram 7. In the wealth accumulation phase, investors convert income into investment capital. Investments in this phase are growth-focused and emphasise on returns *vis-à-vis* one's risk appetite. In contrast, wealth decumulation – a concept that is still nascent in Malaysia – requires investors to convert a portion of their investments into fixed or regular



*Moving forward, Malaysia needs an investment ecosystem that is diversified – one that caters to the different needs of Malaysian individuals and businesses.*



<sup>12</sup> Internal analysis, SC, 2019.

<sup>13</sup> Internal analysis, SC, 2020.

<sup>14</sup> This includes measures such as feeder fund structures, Mutual Recognition Agreements (MRAs) and ASEAN collective investment schemes to liberalise access to foreign funds.

<sup>15</sup> Internal analysis, SC, 2020.

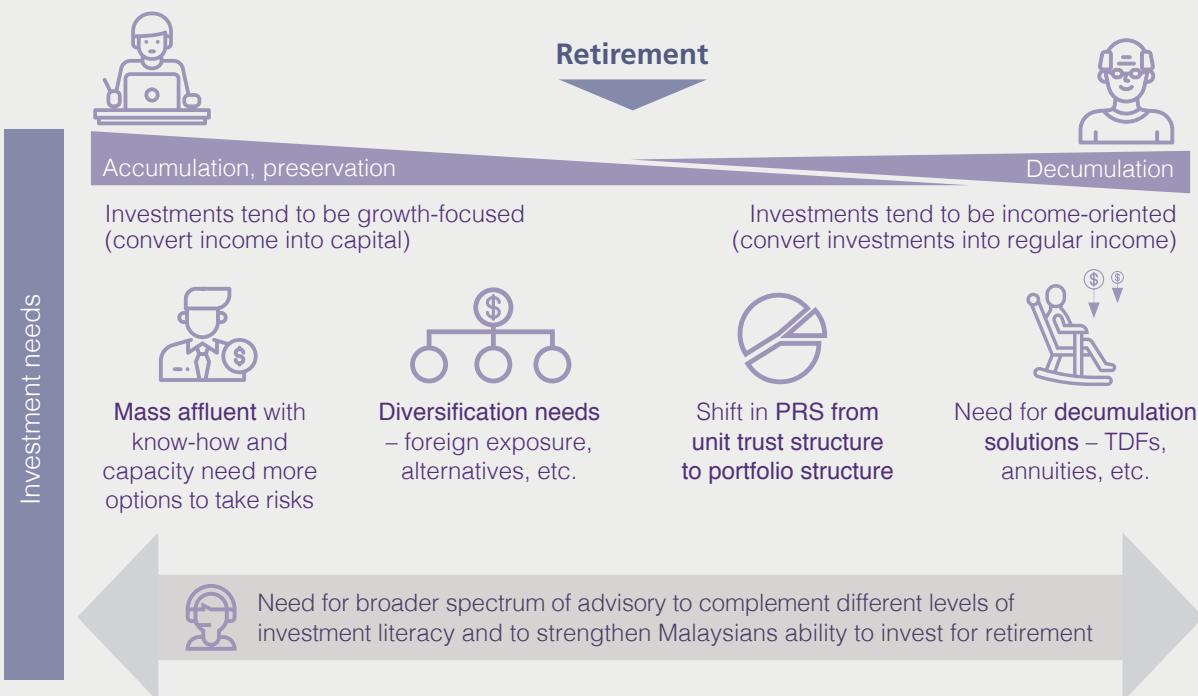
<sup>16</sup> Internal analysis, SC, 2020.

<sup>17</sup> *Aiming High – Navigating the Next Stage of Malaysia's Development*, World Bank, 2021.

income to finance retirement. Investments in this phase tend to adopt more income-oriented investment strategies, with the aim of maximising portfolio durability to support the level of withdrawals needed during retirement. This requires investors to consider incorporating investment strategies with fixed income and annuity solutions, such as target date funds (TDFs), insurance and reverse-mortgage solutions, during the late stages of wealth accumulation. Moving forward, investors may benefit from a broader range of wealth decumulation solutions and greater flexibility in PRS to adopt different investment strategies and investment advice.

**Diagram 7**

INVESTMENT NEEDS RANGE FROM WEALTH ACCUMULATION, PRESERVATION TO DECUMULATION



Source: SC.

As income levels rise, Malaysia will see a growing pool of mass affluent investors. This segment includes, among others, younger working professionals with steady incomes who are digitally savvy and have varying financial needs. In light of this, investors will need wider access to investment options, services and delivery channels that allow them to pursue higher yields, such as investments into alternative asset classes and structured products. Further, as the country progresses, Malaysian investors will increasingly look for greater diversification and higher yields, which may require easier access to cross-border investment products and solutions beyond what is currently available in the market.

Despite the increasing sophistication of some investors, one in three Malaysians have low financial knowledge, particularly among the lower income households<sup>18</sup>. Accessible investment advice is thus important to support Malaysians with varying levels of financial and investment literacy. Those with low investment literacy and poor retirement planning discipline would require basic or automated advice to bolster investment literacy and help them better manage their retirement savings. Investors who are more sophisticated and equipped with knowledge may require a more holistic portfolio-level advice, whereas those entering retirement may require advice that incorporates elements of decumulation into their portfolio. While financial planners (FPs) and DIMs have made advisory services accessible to more Malaysians in recent years, more can be done to strengthen investment advice offerings to better empower Malaysians to make investment decisions for their future. This includes allowing investment advisory models to evolve and thrive in Malaysia, thus raising the bar on the quality of investment advice.

Access to information and ease of investing are important aspects of investor empowerment. This is driving the evolution of fund management market infrastructures. Across various jurisdictions, there is a variety of infrastructures, including one-stop fund information hub, e-Know Your Customer (KYC) infrastructure and centralised fund management processing infrastructure. Such infrastructures not only improve the investing experience, but also enable greater efficiencies for domestic market participants.

While digitisation has empowered investors with greater access to capital markets, there may be a risk that certain segments of the population could be excluded. Elderly and rural investors are most at risk of digital exclusion given the lack of digital access and know-how. As digitisation democratises financial services, it is crucial to bring the broader Malaysian population along the journey and ensure that no group gets left behind.

## STRATEGIC CONSIDERATIONS

### 3.2.1 WIDENING INVESTMENT OPTIONS ACROSS MORE INVESTOR SEGMENTS

#### A. EMPOWERING FOR GREATER RETIREMENT SAVINGS

PRS has gained investor traction, particularly with the middle income group, with total AUM of RM3.7 billion across eight providers as at December 2020. About 71% of PRS members are employed, 19% consist of students, homemakers as well as retirees, and the remaining 10% are self-employed. PRS has also observed steady adoption by employers, with about 800 companies joining the scheme as at December 2020.

Nevertheless, PRS members still represent only a small proportion of working Malaysians, and most have low average savings – about 59% of members have account balance of less than RM5,000. While efforts have been made to liberalise asset allocation and flexibility to withdraw funds for health and medical reasons, there is still room to enhance the investment proposition of PRS. This includes the need to differentiate against the typical unit trust fund as well as enable innovative and low-cost PRS investments.

As investors near retirement, their investment strategies will need to include permutations of growth, steady long-term income and decumulation investments across a range of asset classes to better prepare for their short to long-term life changes. These needs may be served by the introduction of the portfolio account management schemes (PAMs) within PRS. PAMs will reflect a fundamental change in the current structure

<sup>18</sup> *Malaysia National Strategy for Financial Literacy 2019-2023*, FEN, 2019.

of PRS to a portfolio-based structure, allowing investors and intermediaries greater flexibility in investment strategies as well as enabling unbiased goal-based asset allocation. In contrast, the current unit trust structure limits investors to fund strategies adopted by the fund manager, and products carried by agencies and bank distributors. The structure of PAMs will enable a more holistic investor journey, with some customisations along the investment process based on investor's risk appetite and needs. This is currently limited to high-net worth individuals (HNWIs) and private banking clients. As contributions to PAMs will be enabled via various banking and payment methods, there is merit to enhance the seamlessness between PAMs and the banking sector moving forward.

The intermediation for retirement offerings has also evolved with technology. In some markets, pension asset managers and retirement schemes are increasingly collaborating with fintech players and robo-advisors to offer convenient, accessible and affordable solutions. Similarly, PAMs will liberalise for a broader set of PRS providers in Malaysia, extending beyond the current unit trust companies. This will allow DIMs and other providers to offer innovative and competitive PRS offerings onshore.

Another potential consideration is the creation of TDFs, which will provide a more optimal de-risking process for investors as they age. TDFs are designed to give investors a diversified portfolio that rebalances automatically according to their age and target retirement date. The existing default option framework offers an automatic glide path that switches PRS members' funds from a higher-risk growth asset allocation to a more conservative and lower-risk asset allocation when they hit the age limit. In comparison, the TDFs' glide path factors in long-term capital market and demographic assumptions in response to market conditions. This allows investment risk to be adjusted dynamically over the course of the investment period, thus offering a more comprehensive diversification model and smoother de-risking flow for investors.

Over the coming years, there is a need for retirement solutions in Malaysia to evolve holistically to better provide for accumulation and decumulation strategies. This entails enabling a greater range of capital market products such as fixed income and TDFs as well as products across the wider financial services sector, including annuities and reverse mortgages. Greater integration with the insurance and healthcare sectors may also be necessary to enable more effective decumulation products and strategies for the Malaysian market. Investment advisors would need to expand their breadth of products and solutions to better advise investors for retirement protection and investment. Various partnerships and engagements with stakeholders, including co-operatives and employers, will need to be formed to build greater awareness on retirement savings. At the national level, policy measures including tax incentives and matching contributions may also help shape the saving behaviour of investors for retirement.

 *As investors near retirement, their investment strategies will need to include permutations of growth, steady long-term income and decumulation investments across a range of asset classes to better prepare for their short to long-term life changes.* 

## B. EMPOWERING THE MASS AFFLUENT SEGMENT

The mass affluent investor segment is set to grow, yet it remains largely untapped by wealth managers<sup>19</sup>. Across Southeast Asia, the mass affluent segment is expected to account for 21% of the population by 2030<sup>20</sup>. They consist primarily of younger working professionals in the middle class segment and are typically more digitally savvy. While most have sizeable assets stored in cash or savings account, they remain generally hindered from accessing customised wealth services and products. Similarly, majority of the Malaysian mass affluent segment would also have sufficient capacity to invest. As they grow in sophistication and income, these investors are looking to be empowered with more investment options outside the scope of traditional products.

Within the current framework of investor classification, the mass affluent segment is categorised as retail investors. As retail investors, they may not be able to access investments with greater exposure to non-traditional asset classes and products with riskier profiles, despite having the means and risk appetite to do so. Moving forward, to further empower the mass affluent segment, more effort is needed to improve their access to products that are aligned to their risk appetite but are only available to high-net-worth individuals<sup>21</sup> (HNWIs) today.

Given the different levels of investor sophistication, there is a need to evaluate the current classification of accredited investors, taking into consideration the knowledge and experience of investing as well as their appreciation of associated risk that enables informed decision-making. Aside from assessing net worth, the level of investor knowledge and sophistication are also important considerations to enable greater investor participation. This can also cater to investors who are professionals in relevant industries within the financial services sector.

## C. EMPOWERING WITH MORE OPTIONS ON INVESTMENT FUNDS ONSHORE

Within the current unit trust industry in Malaysia, investors can access foreign funds that are recognised under the SC's *Guidelines for the Offering, Marketing and Distribution of Foreign Funds* (OMD Guidelines). This includes funds recognised through the ASEAN collective investment scheme regime and MRAs. In addition, foreign funds such as Undertakings for Collective Investment in Transferable Securities (UCITS), which are available through feeder structures, allow onshore access to foreign funds for Malaysian investors, but are often limited in product range. In this regard, efforts will be undertaken to increase the offering of investment funds to enable greater access to foreign funds and strategies, while ensuring a level playing field for domestic and foreign fund managers. This calls for an approach to enable the phased liberalisation of the unit trust industry, starting with a framework to allow the offering of foreign funds that are from within the group of companies of domestically licensed fund management entities to high-net-worth entities (HNWEs), such as institutional investors and listed companies. Over the medium to long term, this offering may be extended to HNWIs, and potentially, retail investors. Such liberalisation efforts may allow for more types of alternative assets and strategies to grow domestically through wholesale funds and other types of potential regimes. This will also enable new domestic asset classes, such as private credit, digital assets and renewable energy infrastructure investments.

<sup>19</sup> Global Digital Wealth Management Report 2019-2020, Boston Consulting Group (BCG) in collaboration with Lufax, March 2020.

<sup>20</sup> Beyond the "Crazy Rich": The Mass Affluent in Southeast Asia, BCG, 2018.

<sup>21</sup> HNWIs are investors with annual income of at least RM300,000 or a joint annual income with spouse of at least RM400,000.

Amendments to the *Guidelines on Unit Trust Funds* are currently underway to lay the foundations to narrow the gap between the requirements for domestic funds and funds in other major markets. A key outcome of this effort will be to increase the attractiveness of domestic funds to both domestic and foreign investors, which will further boost the growth of the unit trust industry. This entails broadening the definitions for permissible investments and eligible markets for domestic funds to invest, in line with other international fund centres. The liberalisation of investment strategies and asset classes, balanced with exposure limits, will enable investments into new asset classes, such as digital assets and commodity derivatives. Efforts will also be taken to further enhance the efficiency of portfolio management, including expanding the scope of securities lending and allowing repurchase transactions to include foreign markets.

### 3.2.2 FOSTERING ACCESSIBLE AND QUALITY INVESTMENT ADVICE

Malaysian investors today largely obtain investment advice from their own families, investment experts, bankers as well as unit trust consultants or agents<sup>22</sup>. In cases where advisors are unlicensed, investors risk getting poor advice and making uninformed investment decisions. Some advisors represent product manufacturers and tend to provide product-centric advice, which may not cater to investors that are seeking for more tailored advice. As the Malaysian investor landscape continues to mature, there will be a need for greater variety of investment advisory models in the market.

**Diagram 8**

BROADER TYPES OF ADVISORY MODELS TO CATER FOR SPECTRUM OF INVESTOR NEEDS (ILLUSTRATIVE)

Investors' advisory needs	Investors who prefer self-directed investments and do not need advice	Investors who want general investment recommendation on products or asset classes, without considering personal circumstances	Investors who want tailored advice and solutions, based on their needs, risk appetite and investment goals
Types of investment intermediary models	Execution-only	Non-personal Advice	Personal Advice
	<p>Investors who prefer self-directed investments and do not need advice</p> <p>Execution-only</p> <p>Provision of execution-only services without advice</p> <p>Example: online distribution platforms and stockbrokers</p>	<p>Investors who want general investment recommendation on products or asset classes, without considering personal circumstances</p> <p>Non-personal Advice</p> <p>Provision of investment recommendations without taking into account personal circumstances of the investor</p> <p>Example: investment experts or advisors</p>	<p>Investors who want tailored advice and solutions, based on their needs, risk appetite and investment goals</p> <p>Personal Advice</p> <p>Provision of investment recommendations taking into account personal circumstances of the investor, which can be standardised or customised across range of asset classes</p> <p>Example: robo-advisors, FPs and wealth advisors</p>

Source: SC.

<sup>22</sup> *Nationwide Survey Report*, Federation of Investment Managers Malaysia (FIMM), 2019.

Savvier investors may see value in self-directed investments. The growth of this investor segment can spur the growth of low cost execution-only or distribution-only business models. EPF e-members investment scheme (e-MIS) is already paving the way for self-directed investments, by allowing its members to withdraw and invest their savings in private sector funds through its online platform. In addition, the introduction of e-services platforms in 2020 will also enable the growth of online distribution of capital market products.

Broad advice will be relevant to investors seeking general investment recommendations in selected industries, asset classes or products that may be considered for their overall investment portfolio. By enabling this category of advisory model, investors can benefit from qualified investment experts.

As the industry evolves in complexity, especially in aspects of retirement, there is greater demand for personal advice – one that prioritises outcomes for individual investors *vis-à-vis* their risk profile and helps them meet their investment goals. Although it is still small in size, there has been traction with DIMs and FPs who provide personal advice. DIMs adopt a more standardised and automated approach to personal advice in addition to managing one's portfolio, while FPs provide individually customised advice based on investor needs and risk appetite. There is also an emerging trend of hybrid advisory models that integrate human interaction with automated advisory. As the demand for wealth management advisory grows, there would be opportunities for more intermediaries to shift their focus towards providing personal advice. Growth in this category of advisory model can offer investors greater variety and quality of personal advice.

The SC will also conduct a joint review with BNM towards consolidating the licensing regime between FPs and financial advisers (FAs), which are regulated by the SC and BNM respectively. This takes into consideration that a sizeable number of FPs and FAs are dual-licensed today and are therefore subjected to dual regulations. This will enable the consolidated FPs and FAs to offer a wider range of financial advisory and planning services to consumers and investors, as well as reduce the regulatory costs for intermediaries.

To facilitate the spectrum of investment advisory models in Malaysia, the SC's regulatory framework will need to evolve. This entails a more streamlined and modularised licensing regime, complemented by regulations and regulatory expectations on the various types of advisory models that are clearer and more distinct. There are also various other factors to be considered, including the implications on current business models in the market, commercial viability and talent needs. Moving forward, an extensive regulator-industry collaboration will be fundamental to shape the investment advisory landscape.

### **3.2.3 ENABLING GREATER EFFICIENCIES THROUGH MARKET INFRASTRUCTURES**

The ease of the investing process and ease of access to reliable investment information are powerful components that contribute to investor empowerment. Technology has made investor empowerment more prominent. Globally, various types of fund management and information infrastructure that enhance both investor experience and efficiencies within the fund management industry have emerged.

The emergence of information infrastructures to centralise fund information in a repository for the fund management industry provides investors with greater awareness on available investments and enables better comparability of fund performance. This is similar in principle to the Bond+Sukuk Information Exchange (BIX) in Malaysia.

Across Asia, centralised infrastructures connecting various stakeholders across the fund management value chain have emerged that enables market participants to better serve investors. Some notable features across these market infrastructures include:

- Centralised e-KYC service, which facilitates easier onboarding for investors and market participants;
- Centralised repository of funds transacted, which gives investors a holistic view of their investments across different service providers;
- Standardised and automated interaction across asset management companies, distributors, trustees and banks to remove inefficiencies in manual and bilateral communication;
- Centralised back-office processing, which removes inefficiencies and allows market participants to focus on expanding their business and offerings. This will also drive competition by lowering setup cost for new players and fintech companies;
- Integration with global clearing platforms for cross-border distribution of domestic funds, which allows market participants to diversify into investments globally while ensuring safe custody of fund shares and transparent management of funds – enhancing investors' confidence in these markets; and
- Seamless and interactive sharing of information between market participants and regulators, which enhances efficiency for regulatory reporting and enables more robust regulatory development.

In the future, data sharing ecosystem, which is similar in concept to open banking, will be increasingly relevant as the domestic industry matures. Open application programme interfaces (APIs) by industry players that enable third-party access to investor-permissioned data will present opportunities for further growth in the investment advisory and wealth management space. Greater data sharing will not only benefit investors with easier account aggregation across multiple service providers, but also catalyse new service models and product innovation as well as enhance the effectiveness of investment advisory services.

Implementation of these infrastructure features vary across markets, depending on the nature and needs of the fund management industry – some are enabled by the private sector, while others are jointly undertaken by the regulator and the private sector. Similarly, as the Malaysian fund management industry grows, such features could become increasingly relevant. In line with this, the SC will conduct a feasibility study on relevant infrastructures that can enhance the efficiency of the Malaysian fund management industry and enable greater growth of cross-border fund distribution. The results of this study will help the SC and the industry to identify appropriate next steps to elevate the efficiency of the fund management industry.

### 3.2.4 FACILITATING GREATER DIGITAL INCLUSIVENESS ACROSS INVESTORS

Digital exclusion occurs when segments of a population have unequal access to digital services. Often, these vulnerable segments tend to be older, living in rural or remote locations with poor internet access, or are economically disadvantaged in employment status or educational qualification. In the future when digital services and products become more prevalent, these groups could be even more vulnerable and face the risk of missing out on opportunities and critical information that can affect timely decision-making. In addition to internet access and hardware constraints, most would face challenges in acquiring or keeping up with digital services and lack the motivation as well as confidence to use, understand or engage in digital services.

In recognition of such challenges, some markets have embarked on initiatives that are geared towards greater digital-inclusiveness. Some of these efforts are illustrated in Diagram 9. While the SC has embarked on efforts to increase the savviness of domestic elderly and rural investors on digital technology, the SC is cognisant that this journey would be more successful with greater collaboration with market participants.

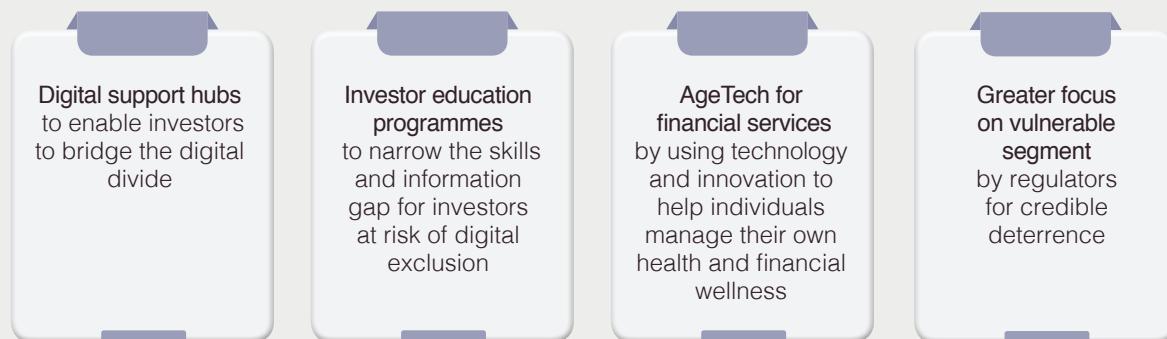
**Diagram 9**

#### FACILITATING INDUSTRY DIGITISATION WITH DIGITAL INCLUSIVENESS

##### Investor segments that are at risk of digital exclusion



##### Efforts taken by other jurisdiction to promote digital inclusiveness



Source: SC.

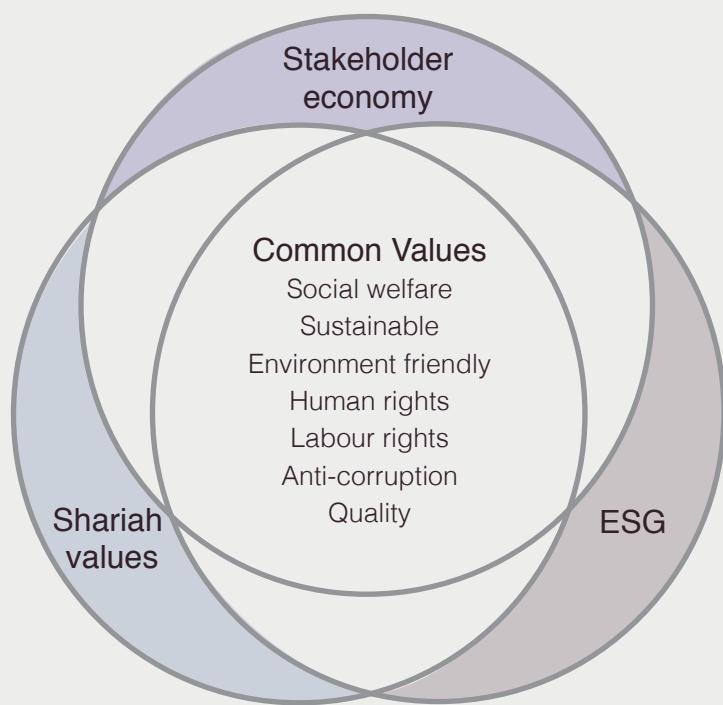
### 3.3 SHAPING A STAKEHOLDER ECONOMY WITH SRI AND ICM

The concept of the stakeholder economy emphasises long-term value creation – one where businesses assume greater responsibilities beyond short-term profits and account for the needs of stakeholders, ranging from shareholders, employees and business partners to the environment, society, and community. This concept is very much aligned to the principles of the Islamic economic system that accentuate the rights of stakeholders across risk sharing, property rights, sanctity of contracts as well as wealth accumulation and redistribution, for a balanced and sustainable socio-economic development. Within the capital market, the SC advocates long-term value creation by (1) promoting responsible businesses with good CG (outlined in Chapter 4.1) and (2) facilitating the intermediation of capital to sustainable and responsible businesses through SRI and ICM to cater to broader stakeholders' needs. This section outlines the development priorities for SRI and ICM in line with Malaysia's focus over the next five years.

#### THE STATE OF PLAY

Efforts undertaken in the previous decade have laid the foundations for SRI offerings in Malaysia and facilitated greater advocacy of sustainability through the ICM. Both the SRI Sukuk Framework launched in 2014 and *Islamic Fund and Wealth Management Blueprint* launched in 2017, have positioned Malaysia as a regional centre for Shariah-compliant SRI. In addition, broad-ranging strategies identified in the SRI Roadmap, which was rolled out in 2019, are currently underway to further strengthen the SRI ecosystem.

**Diagram 10**  
COMMONALITIES BETWEEN ESG, SHARIAH VALUES AND STAKEHOLDER ECONOMY



Source: Adapted from the Halal Industry Masterplan 2030, Halal Development Corporation Bhd, 2020.

While nascent, the SRI landscape has changed rapidly in recent years. Conducive regulatory policies and incentives, coupled with initiatives to scale industry capacity and awareness, have created traction in fundraising for green and sustainable objectives. Since the first SRI Sukuk in Malaysia was issued in 2015, the total value of outstanding SRI Sukuk and bonds issued under the ASEAN standards<sup>23</sup> has grown by 40.7% CAGR from RM2.14 billion in 2017 to RM5.96 billion in 2020. Several institutional investors and domestic fund managers have signed up with the PRI, a United Nation (UN)-supported network of investors, paving the way for growth in SRI funds and investments. All PLCs have sustainability statements as part of their annual report, and investors can access information on ringgit-denominated SRI bond and sukuk issuances through the dedicated SRI centre on the BIX website.

Ongoing work to establish a SRI taxonomy and broaden the spectrum of SRI products will pave the way for greater capital allocation to sustainable initiatives and climate-related disclosures that are aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)<sup>24</sup>. This will shape transparency on climate risk management and broaden stakeholder engagements, which together with technical capacity-building programmes, will cultivate the culture and adoption of ESG elements in Malaysia.

The ICM has been a strong catalyst for sustainable finance, given the commonalities of their underlying principles. Innovations such as SRI sukuk, *waqf* share offerings through an IPO, and *waqf*-featured funds have demonstrated how the ICM facilitates the intermediation of capital formation for commercial purposes while also contributing to positive outcomes for the environment and society. Notably, the SRI sukuk framework facilitated the inaugural SRI social sukuk issuance in 2015 to fund trust schools and the world's first green sukuk out of Malaysia in 2017. These were followed by the increased volume of SRI sukuk issuances, comprising projects that include solar photovoltaic power plants, green buildings, hydropower and affordable housing. For the *waqf* segment, the offering of *waqf* shares structured under a social enterprise model was the first of its kind globally. Dividends from the *waqf* shares were utilised to subsidise rental rates for selected tenants as well as for small shop lots for single mothers and lower income groups. These innovative instruments and initiatives under the ICM is consistent with the social aim of reducing inequality. The milestone Waqf-Featured Fund Framework launched in 2020 will broaden the range of innovative ICM products and provide the public with access to Islamic funds that allocate whole or part of the funds' returns to *waqf* projects.

While the sukuk market has been instrumental for Shariah-compliant fundraising, it predominantly caters to listed and/or large corporations. In reaching out to the broader stakeholders of the economy, there is a need to expand ICM beyond traditional assets and markets. As part of efforts to enhance financial inclusion for the economy, the expansion of ICM into alternative fundraising avenues via fintech will be crucial to create more opportunities for MSMEs and enable participation by more investors – both of which are significant stakeholders of the economy. Initial efforts have seen the emergence of Islamic alternative finance platforms and DIMs, as well as the recognition by the SC's SAC that the trading of digital assets is permissible.

<sup>23</sup> ASEAN Standards comprise of the ASEAN Green Bond Standards, ASEAN Social Bond Standards and ASEAN Sustainability Bond Standards issued by the ACMF.

<sup>24</sup> TCFD was established by the Financial Stability Board to develop recommendations for more effective climate-related disclosures. In 2017, the TCFD released their disclosure recommendations for companies structured around four thematic areas – governance, strategy, risk management, and metrics and targets.

Both innovation and collaboration have been crucial to raise awareness and increase commitments to sustainability in the capital market, while enabling future scalability. The SC's extensive domestic and global collaboration network, coupled with an innovation-friendly ecosystem and facilitative regulatory policies, have facilitated greater synergies between SRI and ICM as well as global recognition of its advancement.

## STAYING AHEAD OF THE CURVE

The renewed momentum on climate action highlighted in Chapter 2 has seen growing commitments by countries, cities and companies towards a future with net-zero emissions. This means accelerating the reduction of greenhouse gas (GHG) emissions caused by human activities and offsetting any remaining GHG emissions from the atmosphere through carbon removal. This movement has seen continued investments in renewables and increasing calls for investments to transition emissions-intensive energy, heavy industrial and mobility sectors. The transition to net-zero emission for the global economy will require trillions of dollars in investments – accentuating the need for significantly more financing for the broader economy to achieve carbon neutrality.

As Malaysia transitions towards a low-carbon economy, it is important to recognise that assets from carbon-intensive activities are at risk of becoming prematurely obsolete or 'stranded' due to technological advancements, policy responses and regulatory developments. The degree of disruption to the capital market would depend, among others, on companies' ability to embrace change and mitigate the risk of 'stranded assets'. Investors and asset owners have started to integrate ESG into their investment strategies and are already taking the initiative to study the potential mispricing of climate risks within their portfolios.

The health pandemic in 2020 also brought the 'social' component of ESG to the forefront of investors' attention alongside the 'environmental' component, and raised the need for businesses to play a bigger role with respect to their broader stakeholders – consumers, community and suppliers. Investors and businesses are paying greater attention to societal issues ranging from employee protection to supporting vulnerable communities such as the economically disadvantaged and small-sized businesses.

These movements to preserve the interests of climate and society are in line with *maqasid al-Shariah* (objective of Shariah), which promotes the attainment of benefits and prevention of harm for the people. By promoting greater alignment with *maqasid al-Shariah*, ICM can foster a more sustainable and responsible capital market ecosystem. This will enable ICM to play a greater role in facilitating sustainable and equitable growth in the economy.

## Box Article 1

### MAQASID AL-SHARIAH FOR THE STAKEHOLDER ECONOMY

It is crucial for Malaysia to provide leadership in shaping the future landscape of Islamic finance, and in particular, ICM, to find a balance between economic development and societal good. *Maqasid al-Shariah* underlines the essence of sustainable economic development – an agenda that has gained traction globally following the adoption of the UN SDGs by world leaders in 2015 – and encompasses key aspects of life and community. This includes inclusivity and facilitating investments for socially-beneficial outcomes, which can be achieved more efficiently with the advent of digital technology as enablers, contributing to long-term value creation – the essence of a stakeholder economy.

Achieving the higher intents and objectives of Shariah requires righteous behaviour and high standards of moral conduct in all dealings. It is not limited to just prohibitive rulings to discourage immoral conduct and actions harmful to stakeholders and the community. *Maqasid al-Shariah* emphasises a holistic view of life in Islam and has to be looked at as a foundation towards a righteous way of life with the aim to preserve and promote the five essentials of mankind – faith, life, intellect, lineage and wealth.

As an extension to the core objectives of the *maqasid al-Shariah*, the following outcomes can be achieved:



Fulfilment of basic human needs



Optimisation of natural resource consumption



Promotion of economic well-being and social justice



Poverty alleviation and reducing income disparities



Adopting permissible and productive activities (*halal*) to promote public interest (*maslahah*) and to do what is right (*amal ma'ruf*)



Rejecting prohibited and harmful activities (*haram*) to prevent what is reprehensible (*nahi munkar*) and prohibit evil (*mafsadah*)

## STRATEGIC CONSIDERATIONS

### 3.3.1 MOBILISING CAPITAL TO SUSTAINABLE AND RESPONSIBLE BUSINESSES

#### A. ENABLING MORE COMPANIES TO TRANSITION TO A NET-ZERO FUTURE

Today, green projects in Malaysia are largely funded through bank loans and bonds or sukuk, including those issued under the SRI Sukuk Framework and the *ASEAN Green Bond Standards*. Green financing for smaller companies or green suppliers through alternative channels or private markets is still few and far between.

For the transition to a net-zero future to be successful, businesses across various sectors, including energy, manufacturing, construction and transportation will require significant financing to decarbonise. Businesses will not only need to invest in green or clean energy solutions like renewable energy or low-carbon transport, but also introduce measures to reduce or avoid GHG emissions – all of which will require investments into more advanced technology and innovation or to transform their operational processes. This includes investments in infrastructures, among others, to capture and store carbon dioxide wastes, improve energy efficiency and develop low-emission production methods for goods and services. As businesses embrace net-zero targets in the future, they will need to explore transition financing outside the parameters of green financing and from a much broader range of capital providers.

As such, there is a need for a Malaysian approach towards transition finance – one that is more inclusive of the broader economy to achieve net-zero emission, while minimising greenwashing risks. Although universally accepted transition principles have yet to be developed, there have been increasing considerations for transition finance by various organisations, including the International Capital Market Association and Climate Bonds Initiative. Most of these require greater clarity in issuer-level disclosures on their pathway to net-zero. For example, corporate strategies to transform business models to address climate risks, materiality of planned transition with science-based targets or transition milestones as well as implementation transparency are all key areas that issuers must consider and report using measurable and comparable metrics.<sup>25</sup> Some markets and financial institutions are exploring transition taxonomies as a way forward to bring the broader economy along the climate action journey. Such efforts are intended to provide investors with greater clarity that transition labels are not an attempt at greenwashing, but involve genuine activities that are contributing towards reducing global emissions.

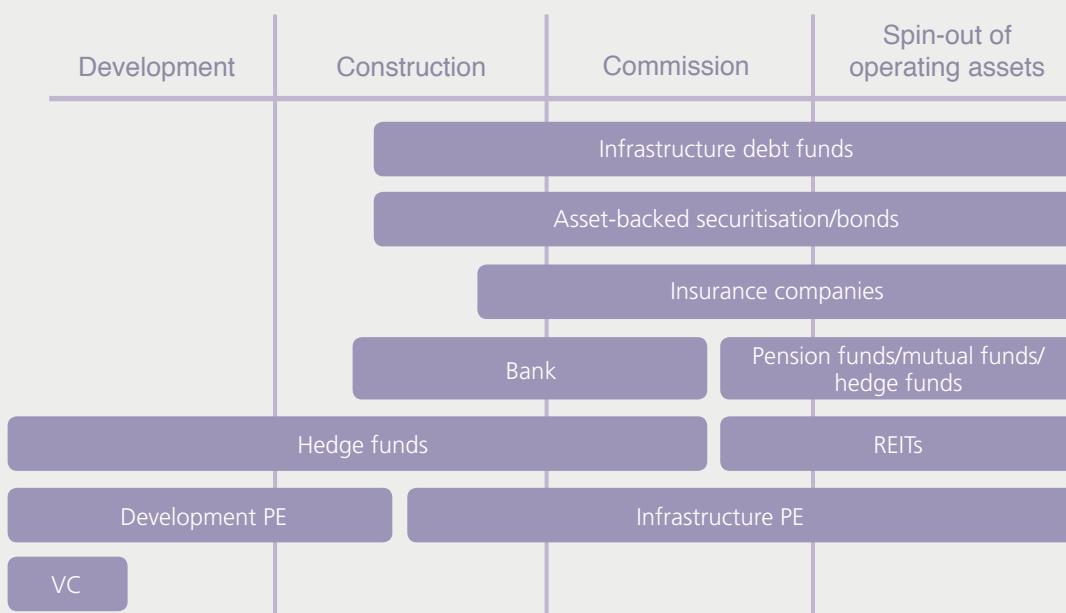
To better enable pathways to net-zero targets, businesses will need to tap into different capital providers with varied risk appetites along the development lifecycle of green technology or infrastructure<sup>26</sup>. While broad funding options are available today, the SC will continue to work with businesses in Malaysia to facilitate greater efficiency in funding their journey towards net-zero. VC firms can be partners for investments in nascent decarbonisation technologies with inherently higher risks or in the earlier stages of development. PE firms, infrastructure debt funds and insurance companies can be capital providers for matured technologies or infrastructures that are in the construction or commission stage. In cases where operating assets are spun-out to be pure-play renewable infrastructure companies, real estate investment trusts (REITs) can also be viable avenues.

<sup>25</sup> Climate Transition Finance Handbook, International Capital Market Association, December 2020.

<sup>26</sup> How to Finance Industry's Net-Zero Transition, Oliver Wyman, 2020.

**Diagram 11**

BROADER FUNDING OPTIONS NEEDED TO FINANCE GREEN AND TRANSITION SOLUTIONS TOWARDS A NET-ZERO FUTURE



Source: Adapted from *How to Finance Industry's Net-Zero Transition*, Oliver Wyman, 2021.

**B. GREATER DISCLOSURES AND DATA AS GAME CHANGERS TO CAPITAL MOBILISATION**

As climate risk becomes a significant consideration of investment risk, investors look to company disclosures and data to make informed decisions. This will become more pertinent as transition finance grows increasingly more mainstream. Disclosures of data are thus key indicators for investors to identify potential risks such as potentially stranded assets and to evaluate if a company intends to manage its carbon footprint going forward. Such disclosures can provide holistic information for investors to analyse the risk-reward trade-off of carbon projects initiated by businesses and the cost of capital. This can also encourage greater participation from a broader set of investors, unlocking more capital for businesses that are sustainable and responsible. Nonetheless, the availability and comparability of climate disclosures across companies today remain key challenges in many jurisdictions, against the backdrop of multiple reporting standards and frameworks.

In response to this, an approach to promote greater alignment towards the recommendations of the TCFD for climate disclosure will be explored for both corporations and capital market intermediaries in Malaysia. This is in line with actions taken by regulators in other jurisdictions. Some jurisdictions have committed to making TCFD-aligned disclosures mandatory by 2025, while others have adopted a 'comply-or-explain' approach for climate disclosures, requiring companies to either provide TCFD-aligned disclosures or explain why they failed to do so.

Greater availability of issuer-specific ESG data will enable the market to objectively measure the ESG risk and impact of companies through metrics such as GHG emissions, workers' pay and total green revenue<sup>27</sup>, instead of just relying on sustainability statements and commitments by the companies. ESG data will become more granular, real-time and varied, spurred by technology and innovation. These trends will however come with issues in relation to the reliability and comparability of data, as well as risks of greenwashing – all of which could corrode the confidence and integrity of the market. In response to this, two key areas will be focused on moving forward:

- Promoting greater transparency in the market through disclosures; and
- Promoting investor protection in the context of greenwashing risks, asset managers' practices on the use of sustainability-related factors in investment decision processes, transparency of ESG data providers as well as disclosures and governance among credit and ESG rating agencies<sup>28</sup>.

### 3.3.2 EXPANDING THE REACH OF ICM TO THE BROADER STAKEHOLDERS OF THE ECONOMY

Malaysia's ICM has experienced various stages of development since early 1990's. The initial stage was crucial to lay the foundations for the orderly growth of ICM. The key initiatives included the development of relevant frameworks to facilitate Islamic offerings, complemented by Shariah governance and tax frameworks. A combination of development initiatives by the SC and the industry have resulted in Malaysia being recognised as a global leader in ICM.

Today, the ICM accounts for more than 60% of the Malaysian capital market, and has evolved from largely focusing on basic Shariah-compliant products and services as alternatives to conventional products and services to offering more comprehensive financial solutions for different market segment needs. Moving forward, ICM offerings will continue to be expanded to better support the needs of stakeholders of the economy. One key area of focus will be the Shariah-compliant funding needs of MSMEs, especially in the *halal* sector, and Shariah-compliant SRI.

The *halal* economy, which comprises mostly MSMEs, contributes to approximately 7% of the national GDP<sup>29</sup>. Today, these MSMEs typically rely on the banking sector as well as funds from families and friends<sup>30</sup>. In this regard, ICM fundraising offerings in VC, PE, ECF and P2P financing can complement the banking sector and fill the funding gaps to support the growth of MSMEs in the *halal* sector. To facilitate this, the SC will collaborate with relevant stakeholders of the *halal* economy to establish and develop an ecosystem conducive to businesses in the *halal* economy, focusing on Shariah-compliant funding models and mechanisms. This includes developing broad Shariah guidance to facilitate assessments of the Shariah-compliant status of unlisted companies for industry reference. Ongoing efforts to raise awareness of alternative Islamic fundraising activities and efforts to broaden Islamic offerings through crowdfunding platforms will also be intensified. These initiatives are expected to expand and provide greater access to the full spectrum of the Islamic investment universe, including the unlisted markets, thus providing greater avenues for both retail and sophisticated investors to participate in both public and private markets. This will enable a more diversified Shariah-compliant investment portfolio across asset classes and economic sectors as well as facilitate greater mobilisation of funds towards the *halal* economy, promoting inclusivity.

<sup>27</sup> Green revenue are revenues generated from products and services that creates a positive impact to the environment.

<sup>28</sup> *Sustainable Finance and the Role of Securities Regulators and IOSCO*, IOSCO, 2020.

<sup>29</sup> *Halal Industry Master Plan 2030*, Halal Development Corporation Bhd, 2020.

<sup>30</sup> *Understanding Financing through the Lens of Small and Medium Enterprises*, BNM, 2018.

Along with the growing interest to invest responsibly, efforts will be made to enhance investor access to Shariah-compliant companies with good ESG practices. This will encourage companies to take into greater consideration the needs of broader stakeholders, including people or communities and the environment. This is expected to further elevate the socially responsible and ethical values of Shariah-compliant companies. In this regard, guidance will be provided to incorporate Shariah requirements and ESG standards for investors seeking such investments as well as companies aspiring to adopt ESG practices. This guidance will leverage existing Shariah screening methodologies and internationally-recognised positive screening methodologies available in the market.

For greater impact to the socio-economic development in Malaysia, the SC will explore greater use of the ICM framework as a reference point and its products and services as funding sources for further development of the Islamic social finance sector. The key objective is to alleviate hardship among the underprivileged population within the Islamic wealth management and distribution system. Today, sources of funding for Islamic social finance are enabled by capital market instruments such as SRI sukuk and waqf-featured funds.

Moving forward, there are opportunities for impact assessments to be integrated with Islamic social finance instruments. This will enable measurable impact investments in the areas of socio-economic development – ensuring that investors will be able to measure whether the capital invested has achieved its desired impact objectives. In this regard, efforts will be focused on building an enabling ICM ecosystem for impact investing. This entails the sharing of knowledge, research capabilities, structured platforms for co-ordination and collaboration with impact stakeholders as well as a facilitative regulatory and development environment for innovation.

#### Diagram 12

#### ICM OFFERINGS CAN BE BROADENED TO BE MORE RELEVANT TO THE DIFFERENT STAKEHOLDERS OF THE ECONOMY



Source: SC.

### **3.3.3 EMBRACING COLLABORATION AND INNOVATION FOR GROWTH**

#### **A. POSITIONING MALAYSIA AS A HUB FOR SRI**

The SRI landscape in Malaysia is rapidly evolving, even as nascent areas such as transition finance, performance-linked SRI instruments and taxonomies are being deliberated and developed. In such an environment, collaboration and innovation are key to remain in the forefront of development in the SRI space while bringing the broader economy along the journey.

Many jurisdictions have adopted a multi-stakeholder approach to facilitate innovation in their markets. In some jurisdictions, for example, the government, industry practitioners, academia and non-profit sectors have come together to develop capabilities in research, product development and technology innovation to enable the country to drive green finance and investment as a global centre.

In Malaysia, several COEs have been established by CMM, an SC-affiliate – the Malaysian Sustainable Finance Initiative to build capabilities of intermediaries in sustainable finance; the Centre for Sustainable Corporations to build up capabilities for sustainable practices among private sector companies; and the Sustainable Investment Platform to promote sustainable investment strategies among investors. Besides these, the SC has collaborated with BNM to set up JC3 in partnership with Bursa Malaysia and the industry to further climate action within Malaysia's financial sector.

Additionally, the SC also plays a significant role in driving the development of sustainable finance on the regional front through the ACMF and the ASEAN Working Committee on Capital Market Development. Internationally, the SC participates actively in IOSCO's sustainable finance initiatives, including managing capacity-building efforts through the IOSCO Asia Pacific Hub based in Malaysia. Furthermore, CMM is a member of the International Network of Financial Centres for Sustainability.

As the Malaysian capital market continues to grow with emerging global and regional SRI needs, the SC envisions Malaysia transforming into a regional SRI hub that aligns with the ICM agenda to establish Malaysia as a regional centre for Shariah-compliant SRI. By leveraging the SC's extensive collaboration network and bringing more domestic and regional stakeholders together, efforts will be made to develop thought leadership in sustainable finance, cater to regional capacity-building needs as well as champion innovation and research, while bringing the broader economy along a journey of long-term value creation. In addition, Malaysia seeks to attract global investments by leveraging its position as having an ever-growing list of Shariah and ESG-compliant companies, SRI funds and SRI sukuk.

#### **B. ENHANCING ICM GLOBAL THOUGHT LEADERSHIP AND CAPACITY-BUILDING CAPABILITIES**

Today, Malaysia is seen by many as a global thought leader in Islamic Finance. As the capital market embraces the emerging trends highlighted in Chapter 2, Malaysia's role as a thought leader in ICM will evolve accordingly. This includes harnessing the advancement in technology to collaborate and innovate to remain relevant on regional and global platforms as well as pave the way on how ICM can better enable the stakeholder economy and sustainable goals.

One key area of focus is on shaping the ICM landscape towards meeting *maqasid al-Shariah*, a concept which places value on advocating righteous behaviour, moral conduct and acts of goodness. In this regard, strategic thought leadership promoting greater ICM contribution towards *maqasid al-Shariah* will be developed, focusing on areas such as social finance, impact investing, SRI as well as Islamic fund and wealth management. Efforts to enhance Malaysia's position as a global centre for ICM will also be intensified, with the aim of providing a global reference platform for ICM.

Capacity building is another key area for the sustainable growth of ICM in Malaysia. Efforts to meet current and future capacity requirements will be strengthened through various upskilling and reskilling programmes to enable the development of professional expertise. There will be greater focus on strengthening capacity and enhancing the abilities of ICM practitioners in the area of Shariah governance via the orderly enhancement of the Shariah governance framework. This will include further strengthening entry requirements and dedicated learning programmes for Shariah advisors.

In the area of Islamic wealth management, growth opportunities exist globally, and Malaysia is well-positioned to capitalise on it given its stature as a leading ICM jurisdiction. Efforts will be intensified to develop capabilities and talents across the value chain of Islamic wealth management through collaborations with regulators, industry players, training and academic institutions, professional bodies as well as other relevant stakeholders. This will help to ensure Islamic wealth management capacity-building programmes continue to be relevant. Measures to establish infrastructure for various aspects of wealth creation, accumulation, preservation and distribution will also be explored. This will include efforts to expand *waqf*-featured fund modality as an effective platform for wealth management products.

### **C. PROMOTING INNOVATION AND EFFICIENT DELIVERY OF ICM PRODUCTS AND SERVICES THROUGH FINANCIAL TECHNOLOGY**

Technology and business innovation are key enablers for greater investment inclusion, which can benefit the broader society. While digital adoption in Malaysia's ICM has expanded across Islamic ECF, P2P financing and DIMs, Shariah-compliant fundraising and investment activities are still at the nascent stage on digital capital market platforms. The SC recognises the importance of digitisation in the capital market and its increasing adoption by market participants. To further the ICM agenda in the digital space, the SAC of the SC had resolved in July 2020 that it is permissible to invest and trade in digital currencies and digital assets on registered DAX that fulfil the requirements as specified in the SAC resolution. This SAC resolution marked a significant milestone for the ICM community to facilitate greater product innovation and the development of digital assets, which in turn, will attract broader participation and provide alternative channels for Shariah-compliant fundraising.

To enable further growth and expand ICM offerings, fintech will be leveraged as an enabler for innovative solutions, focusing on the *halal* economy, SRI and Islamic social finance. These digital solutions will facilitate connectivity by allowing issuers, investors and intermediaries to access existing and new markets in a more efficient and cost-effective manner, thus spurring the growth of the industry. Key initiatives include advancing innovation by capitalising on existing frameworks and through closer collaboration with relevant and key stakeholders.

Programmes to encourage innovation supported by appropriate regulatory guidance will also be considered to facilitate new digital business models, products and services. This will further advance Islamic fintech while creating an ecosystem that nurtures talent, innovation, ideas and solutions that can enable new offerings and improve accessibility.

## SUMMARY OF STRATEGIC INITIATIVES

### 3.1 CATALYSING COMPETITIVE GROWTH

#### 3.1.1 PUSHING THE FRONTIERS OF THE ECONOMY

- a. Explore new avenues such as SAFE notes, Angel Fund and Angel Syndication List for early-stage financing.
- b. Collaborate with relevant government agencies and investment entities to facilitate greater use of market-based financing, and develop the domestic VC and PE industry as well as corporate venture landscape.
- c. Streamline listing process and evaluate more options beyond IPOs to enhance the efficiency of the equity market for late-stage financing.
- d. Introduce new intermediary models and evaluate mechanisms that will enable the bond market to be more inclusive for small to mid-cap companies.

#### 3.1.2 ENABLING A MULTI-LAYERED MARKET

- a. Enable differentiation in marketplaces for different segments of market participants.

#### 3.1.3 FACILITATING DIVERSITY OF THE INTERMEDIATION LANDSCAPE

- a. Facilitate healthy competition across the intermediation value chain.
- b. Enhance the market-making framework and the SBL framework.

#### 3.1.4 EXPANDING RISK INTERMEDIATION

- a. Develop a framework to allow remote membership into the Malaysian derivatives market, starting with trading participants.
- b. Enable the diversification of derivatives intermediaries onshore and develop talent pipelines to support the growth of the intermediation landscape.
- c. Expand suite of commodities, financial and equity derivatives.
- d. Expand derivatives products for retail investors, complemented with efforts to educate retail investors on derivatives trading.

## 3.2 EMPOWERING INVESTORS FOR A BETTER FUTURE

### 3.2.1 WIDENING INVESTMENT OPTIONS ACROSS MORE INVESTOR SEGMENTS

- a. Review framework for investor categorisation by considering criterias such as level of investor knowledge, professional experience and sophistication to assess qualifications for the accredited investor segment, and consider measures to increase inclusivity for mass affluent segment.
- b. Evaluate approach to liberalise access to non-traditional products for the mass affluent segment.
- c. Facilitate the introduction of PAMs within PRS.
- d. Facilitate for innovative and differentiated PRS service providers as well as retirement product offerings in the market.
- e. Embark on a phased approach to allow the offering of a broader range of foreign funds to investors onshore.
- f. Review liberalisation of alternative investment strategies and asset classes to enable development of new investment solutions.

### 3.2.2 FOSTERING ACCESSIBLE AND QUALITY INVESTMENT ADVICE

- a. Develop a roadmap, together with market participants, towards a more diverse investment advisory landscape in Malaysia.
- b. Conduct a joint review with BNM towards consolidating the licensing regime between FPs and FAs, which are regulated by the SC and BNM respectively.

### 3.2.3 ENABLING GREATER EFFICIENCIES THROUGH MARKET INFRASTRUCTURES

- a. Conduct feasibility study on infrastructure needs for the Malaysian fund management industry. Appropriate next steps will be determined, together with the industry, based on the results of the study.

### 3.2.4 FACILITATING GREATER DIGITAL INCLUSIVENESS ACROSS INVESTORS

- a. Facilitate greater collaboration with market participants on digital preparedness for investors at risk, starting with elderly and rural investors.

## 3.3 SHAPING A STAKEHOLDER ECONOMY WITH SRI AND ICM

### 3.3.1 MOBILISING CAPITAL TO SUSTAINABLE AND RESPONSIBLE BUSINESSES

- a. Explore approach for transition financing in Malaysia.
- b. Facilitate wider options across the funding escalator for companies embarking on net-zero commitments.
- c. Promote greater transparency in the market through disclosures.
- d. Evaluate approach for investor protection, in relation to the management of disclosures, data, ESG investment decision-making as well as green-washing risks.

### 3.3.2 EXPANDING THE REACH OF ICM TO THE BROADER STAKEHOLDERS OF THE ECONOMY

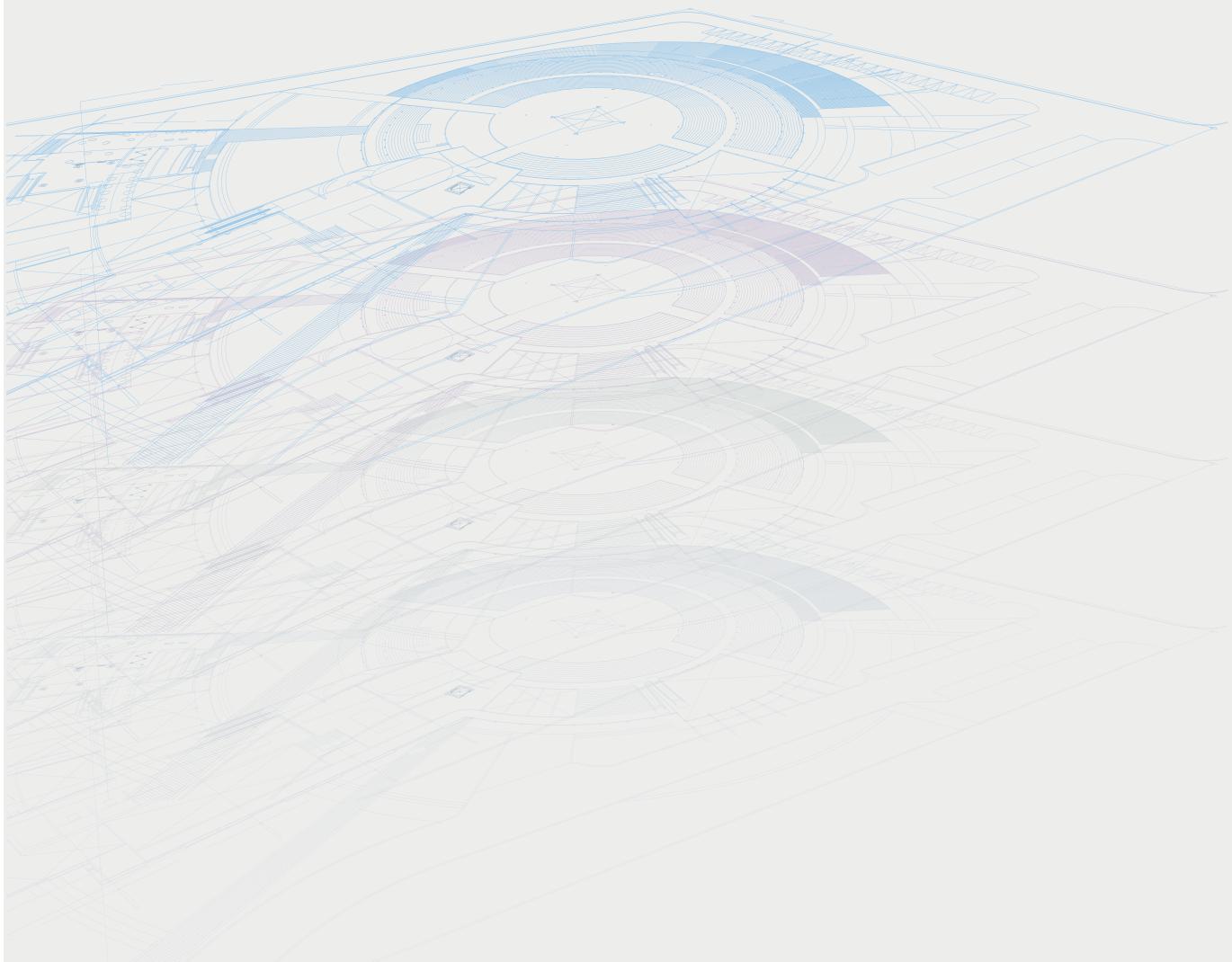
- a. Enable greater access to Shariah-compliant fundraising for MSMEs, focusing on those in the *halal* economy.
- b. Develop guidance to facilitate assessment of unlisted companies for Islamic fundraising activities.
- c. Develop guidance to incorporate Shariah requirements and ESG best practices for PLCs.
- d. Leverage and strengthen relevant ICM frameworks to enhance the Islamic social finance ecosystem.

### 3.3.3 EMBRACING COLLABORATION AND INNOVATION FOR GROWTH

- a. Position Malaysia as a hub for SRI by developing thought leadership, catering to regional capacity-building needs as well as championing innovation and research.
- b. Enhance ICM global thought leadership to promote greater alignment of capital market activities with *maqasid al-Shariah*.
- c. Build capacity for ICM by strengthening the capabilities of practitioners in the area of Shariah governance and by developing talents for Islamic wealth management.
- d. Facilitate innovation in Islamic fintech through regulatory guidance and accelerator programmes.

## CHAPTER 4

# EVOLVING THE REGULATORY APPROACH



# CHAPTER SUMMARY

1

Embedding shared accountability in the capital market



Promote businesses that are *accountable* to the environment and the broader stakeholders of the economy



Inculcate greater industry *accountability* to mitigate misconduct through self-regulation



Encourage third parties to hold market participants *accountable* for their actions, in particular in ESG practices



Enable shared *accountability* in the capital market with principles-based regulations and greater regulatory transparency

2

Prioritising efficiency and outcomes



*Prioritise* efforts in protecting investors against vulnerabilities



*Prioritise* fit-for-purpose regulatory architecture for enhanced regulatory outcomes



*Prioritise* supervisory efficiency with technology as well as effectiveness in coverage and conduct



Enhance enforcement approach to *prioritise* swift, effective and targeted outcomes

3

Embracing the digital age



Encourage the *embrace* of RegTech for effective compliance, risk management and regulatory reporting



Navigate emerging data, AI and other technology risks as the capital market *embraces* digitisation



*Embrace* greater use of data and technology in the SC for better regulatory efficiency and effectiveness

## 4.1 EMBEDDING SHARED ACCOUNTABILITY WITHIN THE CAPITAL MARKET

The integrity of the capital market is the shared responsibility and accountability of the SC and all participants of the capital market ecosystem. This includes, among others, intermediaries, institutions, RMOs, corporates, auditors, SROs and investors. As the capital market continues to mature and adapt to the emerging trends outlined in Chapters 2 and 3, these participants will need to assess and reflect on how they interact with the market as well as cater to stakeholders' expectations and needs. To facilitate such developments, the SC will refine its regulatory framework to further promote agility, growth and innovation. At the same time, market participants need to be vigilant and prepared to embrace new standards of responsibility and accountability to maintain market integrity. The SC's move towards a regulatory approach that is more principles-based and outcomes-focused will enable market participants to realign their compliance framework according to the nature of their businesses and risk parameters. This section outlines the SC's regulatory framework and design to promote market growth and integrity in a rapidly evolving environment that embraces sustainability, competition and innovation.

### THE STATE OF PLAY

The SC's regulatory approach serves to protect investors by shaping market behaviour while at the same time promoting development and innovation. In the last decade, the SC has embraced the regulatory philosophy of 'no more regulations than necessary'. This is reflected in the liberalisation of regulations that had become outdated due to the maturity of the capital market and its participants or had out-lived their purpose.

Amid growth and innovation, all market participants need to play their part as gatekeepers in their respective business segment. Institutions, including Bursa Malaysia and RMOs, are accountable to maintain fair and orderly markets as well as ensure efficient dissemination of relevant disclosures and information. Licensed intermediaries are accountable for the fair treatment of investors and to manage risks to market integrity, including those associated with anti-money laundering (AML) / combatting the financing of terrorism (CFT). Licensed capital market individuals also play a role – for example, PAs are gatekeepers of the IPO due diligence to facilitate greater efficiency in the approval process. Frontline regulators such as Bursa Malaysia and SROs such as the FIMM are accountable to regulate the conduct of their members in order to protect investors.

Corporates are accountable to their shareholders and wider stakeholders for the viability, integrity and sustainability of their business. The MCCG acts as a compass to guide companies and boards in navigating the rapid evolution of markets and business structures. The SC has also put in place guidelines to provide clarity on its expectation of the directors' discharge of fiduciary duties. Investors or shareholders with voting rights can play a bigger role in shaping responsible corporate behaviour by engaging boards and senior management of investee companies, as well as exercising their voting rights to promote board accountability and transparency. External auditors also play an important role in promoting the reliability and integrity of a company's financial statements to enable shareholders and investors to rely on the financial reports when making investment decisions.

The SC's core functions of rule-making, authorisation, supervision and enforcement provide a robust framework which promotes market integrity and investor protection. To manage both conduct and systemic risks, the SC adopts a risk-focused supervisory approach over intermediaries and institutions, with emphasis on governance, compliance and senior management culture. In this regard, the SC's enforcement parameter applies an outcomes-focused approach and utilises a broad set of tools, ranging from administrative to civil and criminal actions.

### Diagram 13

#### MARKET PARTICIPANTS HAVE SHARED ACCOUNTABILITY IN PRESERVING MARKET INTEGRITY



Source: SC.

### STAYING AHEAD OF THE CURVE

Emerging developments across climate change, societal inequalities, competition and innovation have given rise to new challenges as companies race to meet the evolution of investors' needs and expectations. For example, the rise in sustainability movement has resulted in greater expectations of corporate accountability to the environment and society. Similarly, the growth in innovation and technology has changed investors' expectations of service levels and access.

To meet the public and investors' expectations on sustainability issues, corporates will need to assess and align their culture and business operations with responsible business practices. This includes, among others, the consideration of stakeholders' views on sustainability as well as a stronger focus on action, outcomes and CG. The leadership of the board is profoundly important to ensure corporates are able to deliver long-term value responsibly.

Capital market institutions and intermediaries too are expected to play a key role in Malaysia's transition towards a low-carbon economy. They can support the achievement of sustainability goals through the intermediation of risk and capital by taking into account ESG factors. This includes incorporating ESG considerations into their corporate, investment and business decisions. Along with the growth in SRI, there will be increasing demand for ESG disclosures and for intermediaries to be able to manage ESG-related risks which could undermine investor interests.

In response to changes in investing behaviours, the intermediation landscape will see more innovation, disruption and competition. As the SC introduces more flexibilities in the regulatory regime to enable innovation and competition, market participants are expected to exercise greater self-regulation in their conduct of business. Increasingly in other jurisdictions, individual firms are taking on a more proactive role in self-policing, self-reporting and self-rectifying breaches.

Large global institutional investors are already leading the way as strong advocates for change, particularly in driving good CG, through direct engagements with investees or by exercising their voting rights. In this regard, the IIC can and should play a bigger role in adopting greater transparency in their engagements and voting patterns.

Moving forward, as the capital market develops further, the SC's regulatory approach will continue to adapt to allow businesses to meet the changing market needs and innovate – all while safeguarding investors' interests. In this respect, the SC sees the opportunity to take principles-based regulations further, in line with its objective to be less prescriptive and more outcomes-focused. This will entail making further changes in the SC's rule-making, supervision and enforcement approach as well as the need for greater regulatory transparency.

## STRATEGIC CONSIDERATIONS

### 4.1.1 PROMOTING RESPONSIBLE BUSINESSES

**Diagram 14**

KEY THRUSTS TO PROMOTE RESPONSIBLE BUSINESSES



Source: SC.

To prosper over time, corporates are increasingly expected to deliver financial performance and demonstrate that they do so responsibly, benefitting a broader set of stakeholders, including employees, customers and the communities that are impacted by their activities. This shift has centred on considerations of governance, people, planet and prosperity – all of which are recognised as critical pillars for transition to a resilient and sustainable future<sup>1</sup>. This is particularly relevant, in light of the targets set by many markets to move towards net-zero emissions.

Board leadership will continue to be critical to promote responsible business practices, drive long-term value creation for stakeholders and respond to stakeholder expectations on sustainability commitments. Having an effective board hinges on factors such as independence, diversity and skills-mix – areas that the SC will continue to focus on. Capacity for ESG leadership among boards and senior management must also be strengthened to ensure corporates are able to respond to sustainability issues in an integrated and strategic manner. This includes reliable and timely sustainability disclosures. As the significance of sustainable reporting increases, auditors are expected to play a key role in the verification of these sustainable reports to provide credibility to their clients' sustainability efforts. In this respect, auditors may need to strengthen their knowledge and capabilities in the area of sustainability to keep up with the needs of the market.

In April 2021, the MCCG was updated to introduce best practices and further guidance on, among others, board policies and practices on the selection, nomination and appointment of directors, as well as further guidance for areas identified by the SC's CG Monitor report that see relatively low levels of adoption. The updated MCCG also focuses on the role of board and senior management in addressing sustainability risks and opportunities of the company, which will set the stage for ESG leadership in corporate Malaysia.

Financial intermediaries too play a part in promoting responsible businesses through their role in mobilising capital. As SRI becomes mainstream, investors will increasingly expect asset managers or fund managers to consider the ESG risks within their portfolio and to actively manage such risks. As outlined in Chapter 3, regulatory considerations and supervisory focus will prioritise transparency through disclosures and investor education, in particular to ensure governance over ESG integration in investments and management of material climate-related risks such as greenwashing risks.

Promoting responsible business will in fact require a whole-of-society approach. As such, the SC will continue to work closely with key stakeholders, including the members of the CG Council, with a targeted focus on driving greater, more visible and impactful stewardship by institutional investors.

#### 4.1.2 INculcating greater self-regulation

While a vigorous enforcement program is essential to fulfil the SC's mission in maintaining investor confidence in the capital market, the SC recognises that this alone is not enough to prevent misconduct in the capital market. Despite numerous pre-emptive actions taken by the SC over the years, enforcement remains a 'post occurrence' action after a violation has occurred or was detected by authorities.

To achieve more optimal compliance with rules and earlier detection of regulatory breaches, there is a need to encourage regulated entities to self-report and self-rectify. Self-reporting and self-rectification is critical in mitigating the impact of a misconduct as well as containing and minimising losses to investors.

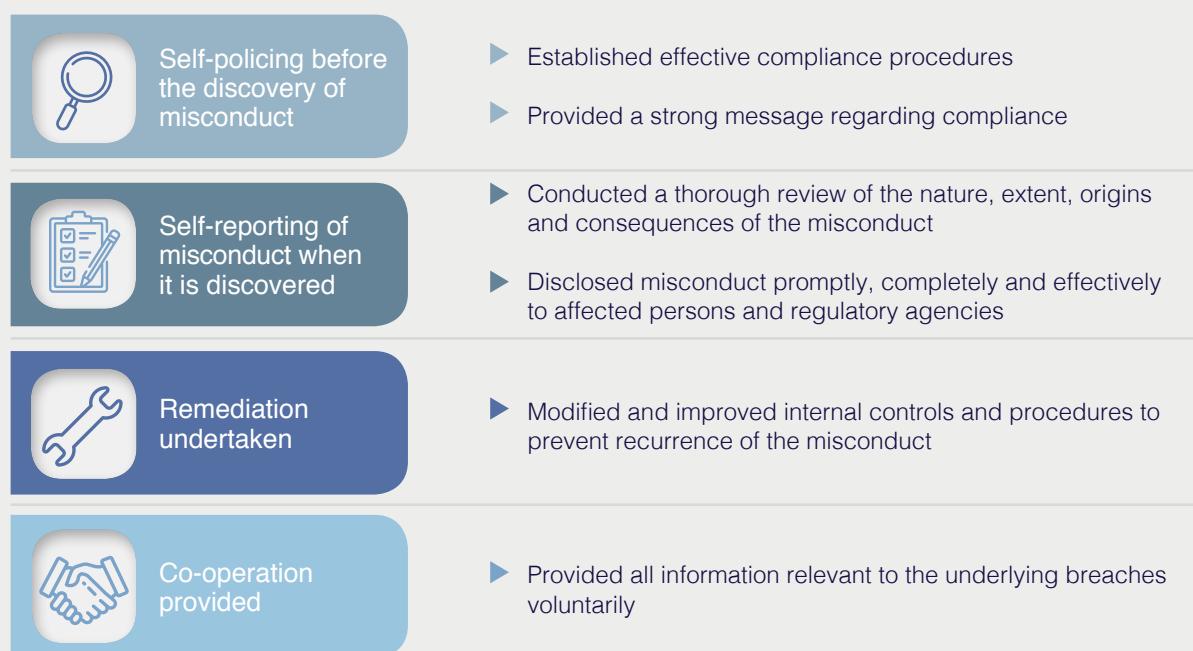
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<sup>1</sup> *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*, World Economic Forum, September 2020.

Unlike mandatory self-reporting where regulated entities are obligated to report under prescribed legislation and regulations, voluntary self-reporting will rely on the robustness of the processes which regulated entities have put in place to detect potential conduct risks. The co-operation and voluntary self-reporting framework undertaken by most securities regulators entails a credit or penalty reduction scheme that typically considers four key factors – self-policing before the discovery of misconduct, self-reporting of misconduct when it is discovered, measures undertaken to self-rectify breach and co-operation provided to the regulators. The voluntary self-reporting framework for the Malaysian capital market has been operationalised, with a *Guidance Note on Co-operation and Self Reporting* issued in June 2021.

**Diagram 15**

FACTORS TAKEN INTO ACCOUNT IN A VOLUNTARY SELF-REPORTING FRAMEWORK



Source: SC.

#### 4.1.3 ENCOURAGING GREATER INVESTOR ACTIVISM AND ADVOCACY

Investor activism and advocacy are powerful tools that can shape the accountability landscape in the capital market. Backed by greater access to information, investors today, and more so in the future, will be equipped with greater awareness and knowledge to hold businesses and capital market participants accountable towards the environment and the society.

In developed markets, environmental and social issues have become more prominent in shareholder meetings, especially as the world grappled with the systemic implications of the pandemic. Investor activism has in recent years catalysed global energy companies to align their business strategies to the goals of the *Paris Agreement*<sup>2,3</sup>, and global banks to do more to cut fossil fuel financing and combat climate change<sup>4</sup>.

<sup>2</sup> Record year for environmental, social investor petition, *Financial Times*, June 2020.

<sup>3</sup> Shareholders push SEC for tougher climate regime for US oil, *Financial Times*, February 2021.

<sup>4</sup> Barclays offers vote on climate progress as activist heat rises, *Reuters*, May 2021.

Agendas related to human capital issues, including equal opportunity, workplace health and safety as well as diversity, are also gaining momentum in shareholder meetings.

The landscape of shareholder activism has gradually matured in the last decade, contributed in large part by the launch of the MCII as well as the establishment of the IIC in 2014 and 2015 respectively. Institutional investors and the Minority Shareholders Watch Group (MSWG) have also stepped up on stewardship across a wide range of issues, from CG to compensation to workplace health and safety. Moving forward, the IIC will be expected to enhance the MCII to strengthen the stewardship of institutional investors, particularly in relation to sustainability.

Malaysia has also seen a change in how individual retail investors participate in shareholder meetings and exercise their rights. With the movement control orders, Malaysia has seen a shift into virtual and hybrid general meetings. A survey conducted by the SC revealed that virtual and hybrid general meetings resonated with investors across different age groups and the level of engagement during these meetings remained positive. Moving forward, the SC will continue to encourage the adoption of digital tools to promote meaningful engagements between the board, senior management and shareholders at general meetings. Stakeholder communications could also be strengthened through digital platforms and tools, setting up better collaborations to promote effective shareholder participation and by engaging youth on CG topics and issues.

The growth of investor activism and advocacy, in particular among retail investors, is underpinned by the promotion of transparency through disclosures and investor education. The SC continues to promote accurate and effective disclosures by market participants to enable investors to make informed decisions.

Similarly, investor education will remain a key priority for the SC. Over the next few years, the SC will continue to execute initiatives under the *Malaysia National Strategy for Financial Literacy*, together with BNM and the other members of the FEN, to elevate financial literacy among Malaysians and promote responsible financial behaviour<sup>5</sup>.

#### 4.1.4 MOVING FURTHER TOWARDS PRINCIPLES-BASED REGULATIONS

In 2015, the SC, in its regulatory philosophy, outlined the policy to adopt a principles-based approach for regulations – one which emphasises broad-based standards over prescriptive and detailed rules, with greater focus on outcomes rather than dictating processes. This approach acknowledges that there may be more than one way to achieve a regulatory outcome, and by clearly articulating the desired outcomes, firms are given greater flexibility to achieve their own business goals without compromising those regulatory outcomes<sup>6</sup>.

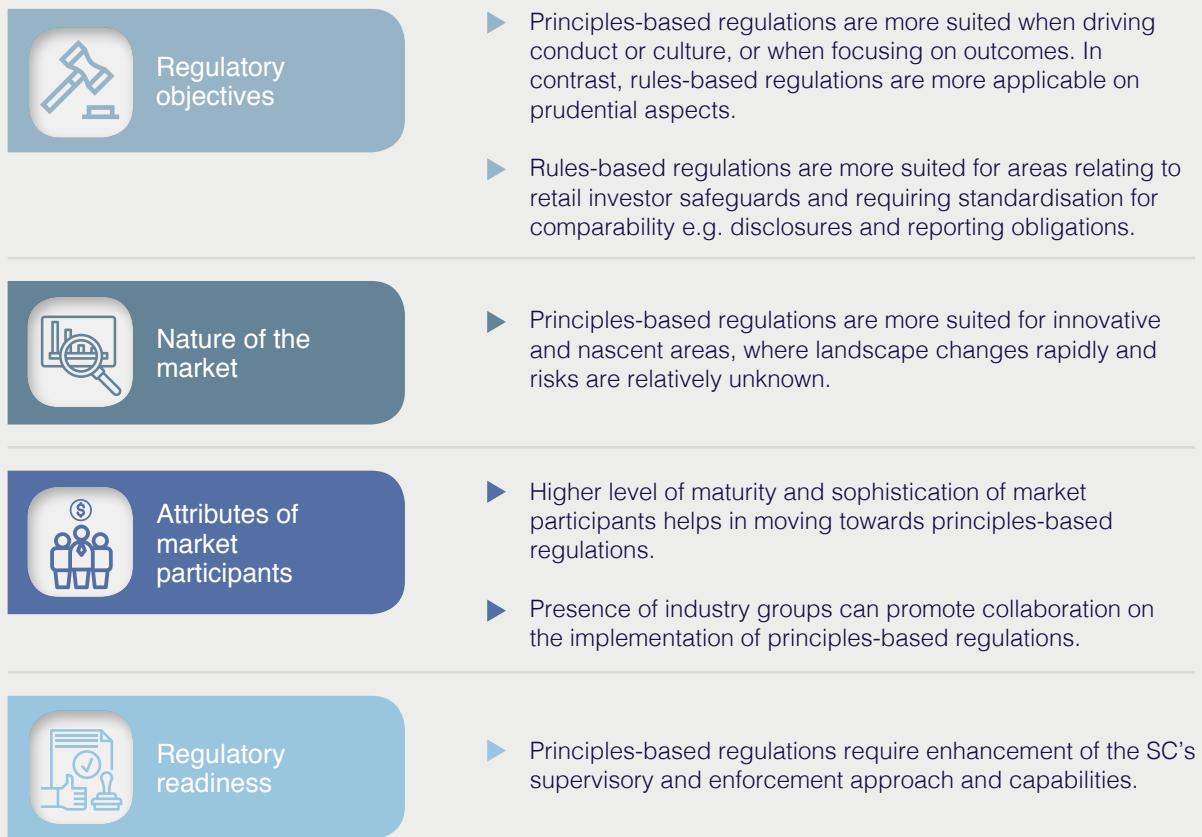
Since then, elements of principles-based regulations were introduced in the *Guidelines on Sales Practices of Unlisted Capital Market Products* and *Guidelines on Recognized Markets*. In more recent guidelines, such as *Guidelines on Advertising for Capital Market Products and Related Services*, the SC has adopted principles-based regulations to a larger extent. These early initiatives and the challenges that surfaced during the implementation of this approach have provided valuable learning experiences for the SC and capital market participants to fine-tune the adoption of principles-based regulations.

<sup>5</sup> *Malaysia National Strategy for Financial Literacy 2019-2023*, FEN, 2019.

<sup>6</sup> *Regulatory Philosophy*, SC, 2015.

## Diagram 16

### KEY CONSIDERATIONS IN ADOPTING A BALANCED APPROACH BETWEEN PRINCIPLES AND RULES-BASED REGULATIONS



Source: SC.

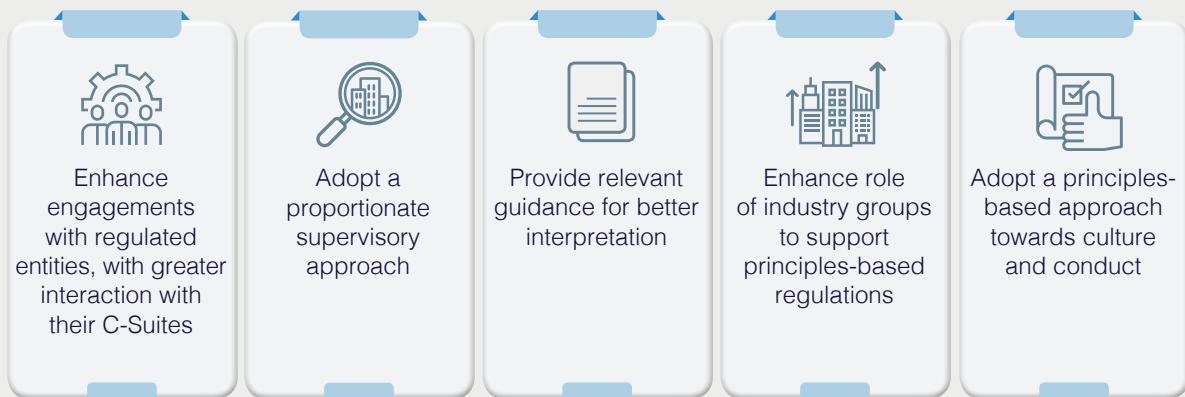
Over the next five years, the SC is committed to adopt principles-based regulations more extensively where appropriate. This entails the reviewing of regulations in a holistic manner, making provisions for principles-based regulations and replacing prescriptive rules where possible. In shaping regulations, the SC will take into consideration the following key factors:

- Objectives that the regulations intend to achieve;
- Nature of the market that will benefit from principles-based regulations;
- Sophistication of the market participants and market structure, and
- The SC's regulatory readiness to supervise and enforce principles-based regulations.

As part of the journey forward, the SC will refine how principles-based regulations will be adopted as well as work with market participants to facilitate and provide greater support for compliance. Recognising that market participants vary in maturity and differ in their ability to interpret principles, some will require more guidance as regulations become more principles-based. The SC will focus on enabling regulated entities on multiple fronts – some of which are currently in practice, but are expected to be enhanced to be more efficient in the transition towards principles-based regulations.

## Diagram 17

### APPROACHING PRINCIPLES-BASED REGULATIONS WITH REGULATED ENTITIES



Source: SC.

Principles-based regulations will require regulated entities to adopt a strategic approach to regulations – this calls for greater senior management involvement to continuously improve their practices and greater capacity for internal compliance teams to make judgement calls when interpreting the principles. To enable this, engagements involving the senior management team will be key to help regulated entities understand the SC's expectations and develop a shared understanding on the type and level of conduct required by the principles.

Recognising that 'one size does not fit all', the SC will apply a facilitative and differentiated approach for smaller or less matured firms over this transition to build their expertise and guide them towards greater adoption of principles-based regulations. To provide greater support, relevant guidance will be provided to help regulated entities better interpret and adopt the principles. Industry groups can also play a more significant role by providing standards, statements of good practices and other publications to guide market participants in adopting these principles.

In line with greater adoption of principles, the focus on culture and conduct of regulated entities will be enhanced. It is important that firms take ownership of their culture – this entails identifying and shaping the drivers of good culture, which will in turn shape the behaviour and conduct of their employees and representatives. In this aspect, regulators globally have taken the following steps in tandem with their shift towards principles-based regulations:

- Embark on the development of guiding principles of good culture, drivers of ethical conduct and outcome of culture reform that firms should achieve;
- Take the approach to guide firms to self-discover the good culture suited to them and take remediation actions to improve their governance; and
- Set expectations for the board and senior management to drive good CG culture.

This will also entail a shift from the current supervisory approach, from one that focuses on compliance culture and governance to one driven by principles, where market intermediaries are responsible to internalise culture and put in place processes, based on their size and business models, to adhere with these principles.

This will also require greater development of shared understanding with the regulated entities in respect of the principles under such regulatory approach. At the same time, the SC will also re-evaluate how it engages market participants, how regulatory objectives are communicated, how consistency is ensured across the regulatory value chain as well as how its supervisory capability and capacity will be developed.

#### **4.1.5 ENHANCING THE TRANSPARENCY OF THE SC'S REGULATORY APPROACH**

As the SC's regulatory approach shifts towards greater adoption of principles-based regulations and self-regulation, there is a need for greater transparency on the SC's expectations on intermediaries and members of the public at large across its supervision, authorisation and enforcement actions.

The SC is committed to enhance the transparency of the regulatory approach and conduct regular communications on regulatory expectations. Having greater disclosures on regulatory principles, approach, objectives, priorities and key dimensions of the decision-making frameworks will give regulated entities greater clarity on regulatory expectations. This will also provide firms with greater guidance and understanding on regulatory changes and actions.

**Diagram 18**  
GREATER TRANSPARENCY ACROSS THE REGULATORY VALUE CHAIN



Source: SC.

#### **4.2 PRIORITISING EFFICIENCY AND OUTCOMES**

The capital market is constantly evolving, and thus, the delivery of services, development of products and innovation of businesses will also change over time. These changes, while enabling value-added propositions, also introduce new challenges and vulnerabilities for investors, especially against the backdrop of changing population demographics. To uphold the mandate of investor protection, the SC's regulatory approach will also need to continuously adapt. Moving forward, the SC will place emphasis on the identification and assessment of vulnerable investors. Simultaneously, the SC will also refine its regulatory approach to better supervise, identify and address capital market transgressions, to ensure more effective deterrence against market misconduct. This section discusses the SC's priorities over the next five years to enhance its regulatory approach, including the efficiency and effectiveness of its supervisory and enforcement functions, to maintain a fair and orderly market and promote investor confidence.

## THE STATE OF PLAY

The objective of preserving the integrity of the capital market and protecting investors is central to the SC's regulatory approach. The SC's regulatory philosophy, outlined in 2015, recognises that the market needs to continuously change to cater to investor demands and technological advancements. Thus, the SC's regulatory approach will need to embrace and thrive through these changes<sup>7</sup>. This entails, among others, facilitating participation by investors of different levels of skills, investment knowledge and net worth in the market as well as enabling diverse business models to offer capital market services to Malaysian investors – all without compromising investor protection. When embracing such development changes, effective and efficient supervision and enforcement become critical to promoting good conduct and deterring market abuse.

Recognising investor diversity, the current regulatory approach distinguishes retail and sophisticated investors through a differentiated protection framework. Investors are segmented based on their net worth, professional background, experience and accreditation status. The design of disclosure requirements, suitability assessments and product approvals are also differentiated for the different investor segments.

In the SC's assessment, the current segmentation criteria can be made more robust to cater to high-net worth investors, both individuals and entities, who may be vulnerable due to a lack of investment knowledge or experience. The current framework also does not consider the vulnerability of investors at different life stages, although such vulnerabilities may adversely affect their judgement when making investment decisions.

The diversity of Malaysian investors has catalysed diversification in the intermediation landscape. As a result, the presence of non-traditional, technology-based companies offering capital market services and products in Malaysia has grown while traditional financial institutions have also scaled up and broadened their range of investment offerings.

While most entities carrying out regulated activities in the capital market are supervised by the SC, there are also entities that are deemed registered within the definition of the CMSA that are also permitted to carry out regulated activities – these include financial institutions such as commercial banks, Islamic banks and insurance companies that are under the oversight of BNM. While there is a Memorandum of Understanding between the SC and BNM to co-ordinate the oversight of banks carrying out capital market activities, the regulatory architecture adopted currently is predominantly one that is entity based, whereby banks and insurance companies that carry out capital market activities are primarily supervised by BNM.

The SC's supervision mandate covers the micro prudential soundness of licensed entities, macro prudential aspect of the markets as well as the risk identification of firms, issuers, products, transactions and markets. This entails assessing the strength of the governance, oversight and risk functions of licensed intermediaries and institutions, as well as whether necessary controls are in place to manage risks. In the last decade, the SC's supervisory capabilities have been expanded across new intermediation models and enhanced through the greater use of data and technology, particularly in market surveillance. Other aspects of supervision are still largely dependent on traditional tools and practices, including thematic reviews, data samples, supervisory inspections and engagements. To be more future-ready, especially in identifying risks and early intervention, there is a need to tap into a wider range of data sources, strengthen the use of advanced and predictive analytics as well as develop new capabilities.

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<sup>7</sup> *Regulatory Philosophy*, SC, 2015.

The SC's enforcement function complements its supervisory strength, enabling it to balance market integrity with proportionality as well as ensure effective and credible deterrence. Past experiences as well as skills gained in pursuing insider dealing, market manipulation and money laundering investigations as well as prosecutions have also been beneficial in directing the SC's enforcement approach, including the management of resources and selection of appropriate enforcement strategies. These will continue to be applied in the spirit of prioritising efficiency and efficacy in areas such as fraud, unlicensed activities, breach of fiduciary duties and protection of investors against vulnerabilities.

## STAYING AHEAD OF THE CURVE

A constant feature of the future capital market will be its dynamism – the speed and frequency of change – which will present both growth opportunities and challenges for market participants and regulators. The proliferation of digital adoption in the capital market will give rise to more sophisticated forms of investment fraud and market misconduct. Growing complexities in investment products also expose investors, particularly those who are vulnerable and more susceptible, to exploitation, poor sales practices and misleading financial advice. Senior investors, in particular those with low financial literacy or those suffering from diminishing cognitive capacity, could be more vulnerable to financial abuse. There is also growing recognition globally that personal circumstances, be it the physical, mental or emotional state of a person, can affect judgement and decision-making capacity in financial transactions, making such person vulnerable to harm at the hands of irresponsible or purported financial service providers<sup>8,9</sup>.

The intermediation landscape is expected to be more modular and fragmented as new entrants equipped with digitally enabled business models continue to compete with traditional businesses. As intermediaries adapt their business models to remain relevant and competitive, the lines are blurring between entities undertaking banking and capital market activities. In turn, this growing trend poses new risk and challenges to investor protection, resulting in the need to rethink the effectiveness of the existing regulatory approach. The concept of entities versus activities-based regulatory architecture for the capital market will therefore require greater refinement in order to minimise regulatory arbitrage. It will also provide a level playing field for all intermediaries. A more efficient matrix form of supervision will also be required to balance the increasing focus on capital market activities with sufficient entity-level accountabilities.

The expansion of the supervisory scope demands greater efficiency as more businesses evolve in their business models and more entities expand into capital market activities. To become more efficient, regulators are taking a more proactive approach – one that focuses on preventive measures, rather than spending significant effort to address the repercussions of misconduct. As such, there is growing emphasis on governance to shape the culture and conduct of market participants. In this regard, more proactive engagements with market participants will be important to respond to key risks and changes in the market in a more agile manner. There is also a growing focus among global regulators to leverage supervisory technologies (SupTech) to improve the regulator-regulatee interaction and sharpen their focus on key risk areas.

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<sup>8</sup> Senior Investor Vulnerability, IOSCO, March 2018.

<sup>9</sup> Financial Lives 2020 Survey: The Impact of Coronavirus, Financial Conduct Authority, 2020.

## Diagram 19

### PRIORITISING EFFICIENCY AND OUTCOMES IN THE FACE OF NEW CHALLENGES

Changing demography and market landscape brings new challenges, in particular to investors



Greater imperative for regulatory efficiency and outcomes



Source: SC.

Similarly, in the area of enforcement, regulators are investing in technology and resources to enable more effective intelligence capacity as well as earlier detection of harm, misconduct and breaches before they escalate into adverse consequences. Some regulators are also making strategic changes in how they approach investigations to shorten investigation timeframes, resulting in more effective enforcement outcomes. These include efforts to improve process efficiencies and establish cross-sector collaboration as well as utilise tools such as enforcement undertakings and wells notices. In line with this, the SC's enforcement approach will be swift, effective and targeted. This will require a shift towards a more focused and outcomes-orientated approach in order to incentivise the right behaviours on the part of market participants.

To become more efficient, regulators are undertaking a more proactive approach – one that focuses on preventive measures, rather than spending significant effort to address the repercussions of misconduct. As such, there is growing emphasis on governance to shape the culture and conduct of market participants.

## STRATEGIC CONSIDERATIONS

### 4.2.1 ENHANCING FOCUS ON PROTECTING INVESTORS AGAINST VULNERABILITIES

As the capital market moves forward with new technologies and increases in complexity, regulators globally have started focusing on the impact of such changes to investors – especially when it can exacerbate vulnerability to fraud and harm. The underlying reason for the state of vulnerability can be multifaceted. For example, the financial circumstance of investors, along with several other factors such as experience, age, education, literacy and socio-economic background, may determine their level of vulnerability. Geographical location, changing personal circumstances such as bereavement and illness can also be determining factors in increasing investors' susceptibility to fraud and malfeasance by unlicensed persons.

**Diagram 20**  
CHANGING DEMOGRAPHY AND MARKET LANDSCAPE EXACERBATES INVESTOR VULNERABILITIES (ILLUSTRATIVE)



Source: SC.

Senior investors in particular face greater risk of becoming victims of fraud, being misled or taken advantage of. As investors age, they may face new challenges such as cognitive impairment due to health and age reasons as well as mental health issues arising from greater social isolation<sup>10</sup>. For some senior investors, these challenges are compounded by a background of limited education and financial literacy – all of which can affect their judgement and decision-making capacity when it comes to investments. This is already apparent in Malaysia – senior citizens are often targets of various syndicates, ranging from phone scams and sweepstakes to more complex scams which involve impersonation of figures of authority. Most scams or fraud activities target the life savings of these senior citizens, regardless of net worth, and take advantage of their vulnerabilities.

There are also segments of investors who are vulnerable due to the lack of decision-making capability. This could include both individuals and entities that lack the knowledge or understanding of financial products and investment experience. Losses experienced by entities that lack knowledge often impact the savings of the individuals they represent. The growth in digitisation within the capital market has also exposed vulnerabilities among investors who lack the knowledge to protect themselves in the digital age.

Today, intermediaries and institutions are expected to treat all investors fairly, have clear and effective disclosures, and where necessary, conduct suitability assessments. Investor programmes, events and alerts have been put in place to raise awareness about fraud and scams. There are also multiple programmes to raise the bar on investment literacy. Moving forward, there is greater imperative to enhance the regulatory approach to cater to investors who are more susceptible to vulnerabilities, especially senior investors. This becomes more important as Malaysia's population ages and more Malaysians are expected to make decisions on their retirement savings – how they invest or drawdown their savings during retirement.

Securities regulators globally have mainly focused on senior investors. In a related IOSCO survey, most jurisdictions still do not have explicit legislation or regulatory requirements focused on senior investors as many indicated that senior investors are protected under general rules for investors.<sup>11</sup> Some jurisdictions have started making changes, with notable considerations outlined in Diagram 21. Most jurisdictions are focusing on investor education to empower vulnerable investors to protect themselves as well as making available dedicated resources or launching research projects to better understand issues faced by senior investors. Some have guidelines identifying best practices when interacting with senior investors – the requirements of which vary across different jurisdictions. Some require additional steps to be undertaken when onboarding senior investors, while others require a more comprehensive approach in the sales and post-sales practices. In designing the regulatory approach for the SC, there is a need to consider issues and challenges faced by vulnerable investors in Malaysia as well as the capabilities of market participants to identify and cater to vulnerable investors.

Within the SC's supervisory and enforcement functions, focus will be directed towards early detection and action against misconduct relating to vulnerable investors. Actions to deter misconduct using the variety of statutory tools designed to protect investors will be considered at the onset. Industry collaboration, which is a pillar of the SC's regulatory outreach, will continue to be prioritised along with developing best practices to shape behaviour among market participants. These efforts will be underpinned by stronger advocacy in investor education programmes to boost awareness and understanding on risks and issues relating to vulnerable investors. This includes adopting greater use of social media platforms to alert vulnerable investors on possible scams or unlicensed activities and enhancing investor outreach programmes to be more targeted towards senior and rural investors.

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<sup>10</sup> *Social Isolation In Older Malaysians: Prevalence and Risk Factors*, Rahimah Ibrahim, Yadollah Abolfathi Momtaz, Tengku Aizan Hamid, 2013.

<sup>11</sup> *Senior Investor Vulnerability*, IOSCO, March 2018.

## Diagram 21

### MEASURES UNDERTAKEN BY GLOBAL SECURITIES REGULATORS FOR VULNERABLE INVESTORS, IN PARTICULAR SENIOR INVESTORS



*Source: Internal Analysis, SC, Based on publicly available information from Financial Conduct Authority, IOSCO, Monetary Authority of Singapore as well as US Securities and Exchange Commission.*

#### 4.2.2 REVIEWING THE REGULATORY ARCHITECTURE FOR THE CAPITAL MARKET

For a regulatory architecture to be effective, it must be fit-for-purpose. An effective regulatory regime is essential to enable the country to reap the benefits of regulation in driving the development of the capital market and improve confidence. The mandate of the regulator should also be set out succinctly with clear objectives, operational autonomy, effective powers and sufficient resources. Globally, different jurisdictions have adopted different architecture for oversight in various areas, among them, micro prudential supervision, macro prudential policies and supervision of conduct of business.

Firstly, a well-designed regulatory architecture can minimise the risk of regulatory arbitrage as consistent standards will apply regardless of an entity's classification, be it a bank, insurance company, securities broker, asset manager or other organisation. Secondly, as businesses evolve, new business structures or features in their products and services may straddle both banking and securities regulation. Thus, an entity may be regulated as a financial institution but the new product or services could be regulated under securities laws.

In the case of banking and securities regulation, there are currently three archetypes of entities within the capital market:

- Archetype 1** Standalone entities that perform capital market activities and are regulated by the SC, such as boutique corporate finance firms and RMOs.
- Archetype 2** Entities performing capital market activities as subsidiaries of a larger banking group. These entities are regulated jointly by the SC as well as BNM, and in some ways may face higher compliance cost.
- Archetype 3** Entities, such as commercial banks, whose primary regulator is not the SC but conduct capital market activities such as fund distribution. Regulatory arbitrage is a concern as regulatory and supervisory requirements imposed on such entities may differ from those under the direct oversight of the SC.

As the SC moves towards refining the regulatory architecture for the capital market, the SC and BNM will conduct a joint study to enhance the regulatory structure for the financial market, which will promote effectiveness of micro prudential supervision, macro prudential policies and supervision of conduct of business. The joint study will explore the feasibility of rationalising regulations on advisory services for banking, insurance and capital market products which will include the consolidation of licensing regime between FPs and FAs.

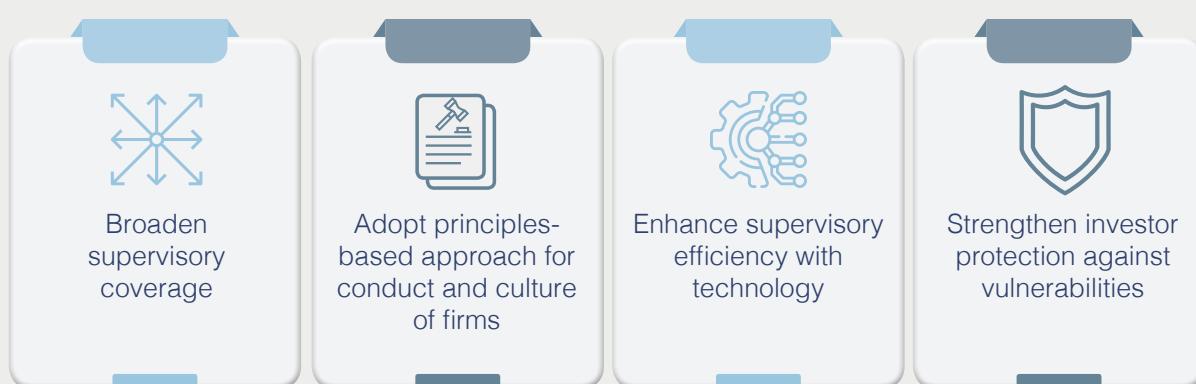
Irrespective of the archetype adopted in the future, continuous collaboration between the SC and BNM will be essential to ensure a holistic approach in managing systemic and financial stability in the financial market.

#### 4.2.3 ENHANCING SUPERVISORY EFFICIENCY AND EFFICACY

Besides the abovementioned review of regulatory architecture to enhance supervisory effectiveness across the various business models and entities in the market, there is also a need for the SC to strengthen its supervisory function across intermediaries, institutions, markets and auditors and become more efficient as the capital market develops in scale, scope and sophistication.

**Diagram 22**

SUPERVISORY FOCUS TOWARDS GREATER EFFICIENCY AND OUTCOMES



Source: SC.

Changes in how financial services are conducted will bring about new scopes in the supervision of market conduct to ensure the fair treatment of investors, with emphasis on investor vulnerabilities. For example, there will be a need to focus on the conduct of advisors as the landscape for investment advice evolves into differentiated models. Similarly in the development of SRI, there will be a need to focus on greenwashing risks, while in the growth of alternative marketplaces, there will be a need to expand the scope of market surveillance. In addition, there is a need to strengthen the SC's supervisory coverage across the intermediaries within the capital market, including FPs, investment advisors, corporate advisors and rating or pricing agencies.

In this regard, an approach which adopts proactive measures can better serve investors and market participants, while optimising the use of the SC's resources. Section 4.1.4 elaborates on the SC's plans to enhance its supervisory focus on the culture and conduct of capital market participants as regulations become more principles-based. This is premised on the belief that the culture of an entity shapes how it is governed and behaves, and that poor culture and values are often the root cause of an entity's failure to meet regulatory standards. Greater supervisory focus on culture and conduct would allow for more proactive management of culture, behaviour and conduct risk within the capital market. In line with this, the SC will outline expectations of governance standards for capital market participants and do more to communicate the findings of thematic or supervisory reviews to provide greater clarity of the SC's expectations.

In tandem, the SC will continue to pursue regular and proactive 'regulator-regulatee' engagements. Today, these engagements are conducted through various forums and platforms, covering areas related to innovation and topics that inform the SC's development and regulatory policies. Moving forward, engagements with market participants will also serve to strengthen alignment on standards and expectations of principles-based regulations as well as to ensure that communication channels remain open, as market participants evolve with greater self-regulation.

The AOB, which supervises auditors in Malaysia, will also enhance its supervisory effectiveness as expectations on auditors as well as audit quality increase and as auditors themselves increasingly adopt new technology when undertaking their work. For larger audit firms, the introduction of the Annual Transparency Reporting for identified audit firms in 2021 will promote greater transparency and accountability for audit quality. For smaller audit firms, the AOB intends to conduct greater engagements to raise the bar on audit quality.

There is also a need to expand the use of data and technology to enhance supervisory efficiency. This will enable more coverage, in particular over the conduct of the growing number of intermediaries and institutions, to safeguard investors without the need to scale up human resources extensively. Today, the SC adopts advanced analytics in the surveillance of markets and in the monitoring of CG adoption and disclosures. Insights derived from the use of analytics have not only brought about greater internal efficiencies but also enabled evidence-based regulatory measures and more efficient policymaking. Similarly, the AOB has initiated efforts on using data and analytics to better assess the risk profile of audit firms and PLCs to augment its supervisory focus. Globally, regulators have started using advanced data gathering and analytics to improve the monitoring of key risk indicators, enhance supervision of market conduct as well as provide better visibility of intermediary behaviours and practices. This entails greater efforts by regulators to automate data collection and develop analytics capabilities. The SC's priorities on this front will be further discussed in section 4.3.3.

#### 4.2.4 ENABLING SWIFT, EFFECTIVE AND TARGETED ENFORCEMENT

Effective regulations that hold entities and individuals accountable as well as deter misconduct promotes investor confidence, and is a key factor in the development of efficient markets. A successful enforcement strategy can change behaviour, reduce transgressions as well as create an environment where fair and efficient markets can thrive. In order to optimise the deterrent effect of sanctions imposed, enforcement action needs to be swift and its outcomes certain. Timely enforcement interventions will also prevent misconduct from escalating and crystallising into detrimental effects on investors. As such, the SC's enforcement strategy will prioritise the utilisation of its resources in market segments that are susceptible to abuse and towards misconduct that impairs the operations of a fair and orderly market. To achieve the aforementioned enforcement outcomes, the SC will adopt a holistic approach across its enforcement value chain.

**Diagram 23**  
SWIFT, EFFECTIVE AND TARGETED ENFORCEMENT APPROACH



Source: SC.

#### A. DEFINING A TARGETED ENFORCEMENT STRATEGY

Over the last decade, the SC focused on the vigorous enforcement of securities laws and active deterrence of capital market transgressions – this has seen significant enforcement focus on insider trading. Recognising the need for greater balance in enforcement focus across its mandate, the SC has in recent years started expanding its enforcement focus to include securities fraud, corporate misconduct, disclosure breaches as well as market manipulation. In tandem, the AOB has also stepped up enforcement actions and imposed sanctions on auditors to deter non-compliance with auditing standards and procedures, to mitigate the risk of future audit failures. These enforcement actions are in line with the SC's priorities on CG, market conduct and investor protection – particularly against fraud and scams arising from an increasingly digital landscape. To be more effective in enforcement outcomes that shape market behaviour, the SC and AOB will continue to refine and deploy a more targeted enforcement strategy.

A targeted enforcement strategy is one that is defined by enforcement priorities, capacity and risk appetite. Greater alignment of enforcement priorities to the insights derived across the regulatory value chain, ranging from regulations to authorisation to supervision, enables a more cohesive effort to shape industry behaviour while enabling greater synergies across the SC. With defined priorities, enforcement resources can be allocated more effectively, and where relevant, the use of cross-functional taskforces can be leveraged for greater regulatory efficiency. For example, a cross-functional taskforce was set up to enable the SC to respond to the increasing numbers of scams and unlicensed activities in the market in a more agile manner.

The SC's enforcement strategy will also be guided by the intended enforcement outcomes, which outlines key considerations to determine the course of regulatory actions taken – be it administrative sanctions, civil actions or criminal charges. These considerations include litigation risks as well as the level of desired deterrence to the offenders and other industry players. Moving forward, the SC will continue to expand the use of administrative sanctions and penalties to strengthen deterrence against market misconduct and breaches in securities law. The SC will also continue to pursue restitution as an effective enforcement tool that not only hold offenders accountable for financial losses suffered by victims, but also generate a deterrent effect. In recent years, the SC has stepped up efforts on disgorgement of illegal profits to compensate investors who have suffered losses as a result of transgressions.

The SC today adopts a set of criteria when triaging for the opening of a formal investigation. This shapes the use of enforcement resources as well as the type of enforcement actions to be undertaken, and typically considers, among others, the seriousness of the misconduct, public interest as well as the availability and quality of evidence to prove misconduct. Once a formal investigation is opened, the SC conducts the necessary investigations within a time charter defined by the complexity of the case.

To achieve swifter outcomes, there are opportunities for the SC to enhance parts of its enforcement value chain. For example, a more efficient triage process can lead to greater efficiency in enforcement actions. This can benefit from process improvement initiatives or a greater use of analytics. The efficiency of investigations can also be further enhanced through various other means, including the expansion of enforcement tools and through greater use of technology. For transgressions originating outside Malaysia, the SC will continue to leverage IOSCO Multilateral Memorandum of Understanding for cross-border investigation.

Efforts to expand the suite of enforcement tools will be pursued to expedite the investigation process and case resolution. For example, some jurisdictions offer prospective defendants the chance to explain themselves and offer information, where relevant, to dispute the facts put forth by the regulator. The use of such tools could potentially reduce time spent validating facts, thus expediting the investigation of a case. In another example, enforceable undertakings by companies or individuals provide the regulator with flexibility to negotiate the terms of an undertaking with the culpable party. Such tools can provide regulators with the balance needed to achieve the appropriate remedial outcomes of investor protection while still managing the timeliness of regulatory action. In this regard, the SC will explore more alternatives in enforcement solutions, relevant to the local context, which can enable greater expediency in the investigation or case resolution process.

Technological advancements will be a key enabler towards more efficient enforcement actions. In developed markets, advanced analytics play a critical role in detecting anomalies that may warrant additional inquiry – be it trading patterns, disclosure patterns in financial statements or behavioural patterns of intermediaries in their submissions to regulators. In some cases, advanced analytics are used to generate leads for swift enforcement actions. In this respect, both the SC and AOB will pursue the greater use of analytics to

enhance their ability in detecting anomalies. In addition, the greater use of digital tools will also enhance regulators' efficiency. In this respect, the SC will continue to increase adoption of technology to enhance analytical and traceability capabilities, build an in-house digital forensics lab to manage digital evidence and develop digital asset investigation capabilities.

## **B. ENABLING EFFICIENCY THROUGH GREATER SELF-REMEDIATION, TRANSPARENCY AND MEASUREMENTS**

The pursuit of self-remediation and co-operation by individuals and entities involved in the SC's investigation and related enforcement actions can also contribute to greater efficiency and expediency of the enforcement process. The SC's introduction of self-reporting mechanisms, outlined in section 4.1.2, is intended to not only enable self-reporting, but also self-rectification in exchange for leniency or credit.

Communications with the general public and the industry will be pertinent as the SC progresses towards a swift, effective and targeted enforcement approach. Greater transparency of the enforcement approach and strategy will enable the public to better understand the SC's enforcement priorities as well as the objectives and rationale behind the SC's enforcement actions. This will promote confidence in the enforcement process. In this respect, the SC will pursue more dedicated reporting of its annual enforcement priorities and outcomes as the next step towards greater transparency. Along with this, the SC will also refine key enforcement efficiency measures to enable continuous improvement in achieving swift, effective and targeted enforcement actions.

## **4.3 EMBRACING THE DIGITAL AGE**

The current digital revolution is being driven by a wave of changing consumer behaviour, heightened competition and demand for greater efficiency in an environment of tightening profit margins. While the digital revolution has enabled new experiences and opportunities for market participants, increasing technology adoption also brings with it emerging risks, including among others, cyber risk, risk of data breach, and AI-bias. Against this backdrop, regulators have begun to refine regulations around technology-enabled activities while transforming their own internal technology capabilities to achieve better regulatory efficiency and effectiveness. This section outlines the key regulatory considerations that the SC will take into account as both market participants and the SC continue to embrace the digital age.

### **THE STATE OF PLAY**

The Malaysian capital market has seen significant growth in digital adoption over the last decade. Online trading has become sizeable, growing to 46.7% of the total equity and derivatives trading volume as at 2020, compared to only 21.9% in 2012. This was driven in part by greater industry digitisation efforts and the entrance of digital-only brokers which have more than doubled the number of accounts opened in 2020 alone. Other aspects of the capital market have also seen greater digitisation. The proliferation of DIMs has catalysed growth in the asset management industry, resulting in ~200,000 new accounts opened since its inception in 2018. The growth of alternative investment has been largely driven by greater access to digital platforms, with ~450,000 accounts being registered at the three DAXs since 2019. Meanwhile, ECF and P2P financing platforms have collectively been used by ~31,000 investors since 2017<sup>12</sup>.

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<sup>12</sup> Internal analysis, SC, 2020.

Market participants have begun to take advantage of new technologies to enhance their capabilities in distribution channels, sales support and back office operations such as reconciliation and fraud detection. This is further enabled by cloud-based and as-a-service offerings ranging from software to platform to infrastructure, which have shortened the time needed to deploy new digital capabilities. The proliferation of data usage and the ability to mine large amounts of data may offer valuable insights and new opportunities. However, basic data hygiene issues remain a challenge and will have to be addressed to mitigate the risk of inaccuracies and erroneous reporting.

In 2017, cyber perpetrators threatened a potential large-scale distributed denial of service (DDoS)<sup>13</sup> attack on numerous stock broking firms in Malaysia. Although this incident did not materialise in any trading disruption or financial losses, it highlighted the potential systemic impact of a cyber incident to the Malaysian capital market. Following the DDoS event, the reported number of cyber security incidents and threats continued to increase as regulated entities pivoted towards digital adoption. In 2020 alone, cyber security incidents increased by over three fold compared to 2019<sup>14</sup>. Most of these incidents were related to phishing and intrusions<sup>15</sup>, which could potentially lead to serious material and reputational loss to businesses.

Cyber resilience has therefore become imperative for all capital market participants and a significant priority for the SC. In 2018, the Cyber Risk Working Group was set up, consisting of representatives from the SC and market participants, to discuss cyber issues and strengthen industry resilience against cyber risk. Relevant market participants are also assessed annually on their general preparedness for cyber attacks through an industry-wide cyber security simulation exercise. This annual simulation exercise (Capital Market Cyber Simulation) was designed to simulate cyber incident scenarios as close to the real situation as possible. Although market participants have demonstrated improvements in their ability to detect, respond to and recover from cyber attacks, cyber threats have evolved as well. For example, cyber attackers have started to exploit loopholes in the supply chain as potential entry points into organisations that have solid cyber controls in place and weaponise AI for cyber attacks. Hence, it is important for the industry to continue elevating its cyber resilience and cyber readiness.

Along with digitisation efforts by the broader market, the SC has continued to pursue its own digitisation journey to automate interactions with market participants, augment policymaking as well as enhance its supervisory and enforcement efficiency. Regulatory submissions and reporting to the SC has been digitised and streamlined over the past decade through the LOLA Online Submission System and Common Reporting Platform (ComRep). Efforts to incorporate advanced analytics in the SC's regulatory functions have also begun, as outlined in section 4.3.3. These are being deployed to evaluate the adoption of CG practices by PLCs as well as to enable real-time analytics and relationship analysis in market surveillance. In addition, a pilot project on DLT was carried out to further the SC's understanding of this new technology. Efforts to build digital forensic capabilities are also underway to enhance the management of digital-based evidence for the investigation and prosecution of cyber-crimes. With the SC consuming more data than ever before, data analytics is being embedded even deeper into internal processes to deliver more effective, evidence-based policies and decision-making.

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<sup>13</sup> A DDOS hit occurs when the bandwidth of a targeted system is flooded with traffic – typically from hijacked or infected machines – to overwhelm the system's capacity and render its services inaccessible.

<sup>14</sup> Internal analysis, SC, 2020.

<sup>15</sup> Cyber intrusions refers to the act of gaining unauthorised access to a computer system.

## STAYING AHEAD OF THE CURVE

Evolving expectations on digital fundraising and investments have put pressure on capital market participants to improve their customer experience to remain relevant. With more consumers demanding tailored and personalised digital experience, a deeper understanding of individual clients and the ability to offer bespoke products to meet investor needs is required. For market participants to be able to achieve this at scale, they need to incorporate advanced technologies and data analytics effectively into their businesses and operations.

New solutions have also emerged to enable a more efficient and effective approach towards managing risks, client onboarding as well as regulatory reporting, compliance and monitoring. These new solutions, collectively referred to as RegTech, are gaining momentum globally. Since 2017, global investments into RegTech have grown by ~7.0 times to \$10.6 billion in 2020<sup>16</sup>. Various surveys have also shown growing interest from regional and global financial institutions to adopt RegTech moving forward<sup>17,18</sup>. Most RegTech efforts by financial intermediaries can be seen in areas such as KYC, transaction monitoring, AML screening, fraud prevention, compliance risk analysis and regulatory reporting. Regulators across jurisdictions have also begun to play a bigger role in building greater awareness and promoting the growth of RegTech within their markets.

As data analytics gain traction among market participants, governance issues relating to the collection and usage of data have come to the forefront. Global regulators have begun setting standards on data protection and privacy to clarify and establish the rights of consumers over their personal data as well as the role of businesses in safeguarding the data of their consumers. The European General Data Protection Regulation (GDPR), for example, is a step in this direction. It provides consumers with greater control over their personal data, allowing them to extract it from an entity for their own use or to share it with another entity, or alternatively, request for erasure of their data.

Beyond the existing applications of technology in the capital market ('known knowns'), there is also a need to consider existing technologies that have potentially new applications ('known unknowns'), and technologies that have yet to be invented ('unknown unknowns'). As a result, globally, securities regulators routinely review regulations and policies with respect to technology risk management. Over the years, regulatory policies and guidance have evolved from covering traditional areas of technology risk management, such as technology governance, technology risk oversight and operational resilience, to newer developments on data privacy and security, responsible AI as well as cloud computing. In this respect, the SC will continue to take a multi-pronged approach to manage emerging technology risks by improving awareness of new technologies, understanding their applications and the potential risks to the capital market as well as designing appropriate regulatory policies.

Globally, securities regulators are advancing the use of data to inform regulatory policymaking and actions. In addition to the automation of regulatory reporting and processes as well as data collection for intelligence purposes, regulators are transforming their organisations, developing new capabilities, recruiting new talent and enhancing the way intelligence is used to take swifter regulatory actions. These efforts will pave the way for regulators to gain deeper insights into markets and investors as well as be more agile when responding to emerging risks and potential harm to investors, while being more efficient in the use of resources.

<sup>16</sup> Pulse of Fintech H2'20, KPMG, February 2021.

<sup>17</sup> Transforming Risk Management and Compliance: Harnessing the Power of RegTech, Hong Kong Monetary Authority, 2020.

<sup>18</sup> Fintech, RegTech and The Role of Compliance, Thomson Reuters, 2021.

## STRATEGIC CONSIDERATIONS

### 4.3.1 CATALYSING REGTECH

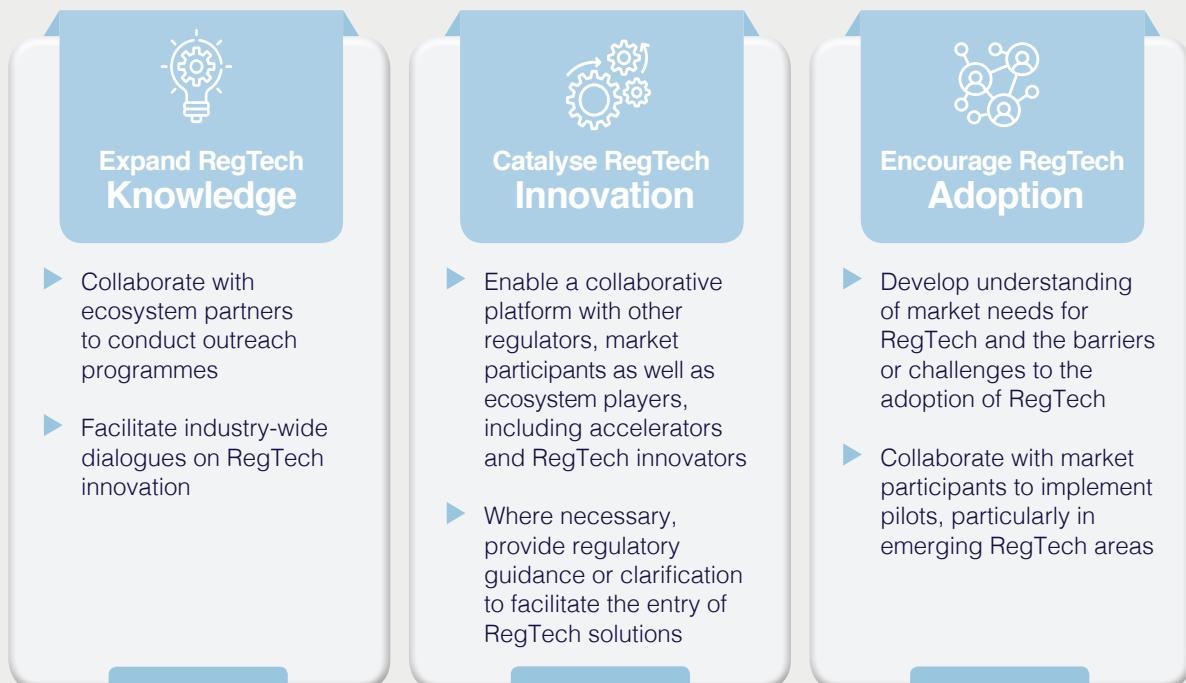
Enabled by the rapid advancement of technology, RegTech have emerged in recent years as solutions for market participants to automate and enhance the effectiveness of their compliance to regulatory requirements, risk management monitoring and regulatory reporting. Examples of RegTech adoptions across various jurisdictions can be found in many literatures, some of which are outlined in the Box Article: *Objectives of RegTech*. RegTech solutions which enable real time detection could allow issues to be addressed before they manifest into larger concerns, and early detection of emerging risks can mitigate reputational loss and regulatory sanctions. Automated RegTech solutions which remove manual intervention can reduce costs of operations and regulatory compliance while solutions that identify and mitigate fraud risks, including innovative KYC solutions, can deliver better outcomes for consumers.

Across most of these examples, RegTech solutions demonstrate benefits that can enhance the capital market's overall efficiency in mitigating material risks and maintaining market integrity. As the SC looks to promote greater self-regulation and discipline within the capital market, RegTech can play a role in enabling market participants to self-monitor compliance requirements and detect lapses in a timely manner. This includes moving beyond the traditional sampling approach to leveraging technology to audit complete sets of data and at more regular intervals.

Recognising the potential of RegTech, the SC aims to see greater use of data, analytics and technology by market participants to improve efficiency, maintain market integrity and protect investors. This means encouraging greater RegTech adoption among participants and facilitating growth in RegTech innovation. In doing so, the SC will adopt a three-pronged approach as outlined in Diagram 24.

**Diagram 24**

THE APPROACH FOR THE DEVELOPMENT OF REGTECH IN MALAYSIA



Source: SC.

The SC has already begun engagements with market participants and technical experts to identify areas where RegTech has the greatest impact and understand the barriers or challenges of RegTech adoption. This will be a continuous process, where inputs from these engagements will be used to identify RegTech priorities and inform the development of RegTech in Malaysia. Collaborative efforts with the broader industry are key to expanding RegTech knowledge among market participants. This includes joint efforts to facilitate greater information sharing within the capital market about potential RegTech solutions, innovations and best practices. Greater knowledge will be fundamental to spur RegTech growth, innovation and adoption.

To facilitate greater RegTech innovation, collaborative platforms will be put in place to facilitate industry-wide discussions to synthesise innovative ideas on RegTech. Events such as hackathons or TechSprints will also be considered to catalyse RegTech development in areas that could potentially unlock significant value for the capital market. Where relevant, regulatory guidance can be provided to help RegTech solution providers navigate through regulatory requirements in the Malaysian capital market.

## Box Article 2

### OBJECTIVES OF REGTECH

RegTech solutions in various jurisdictions are broadly used to enable the three key objectives, outlined below:

Enhance compliance with regulatory requirements



RegTech solutions are often used to automate workflows to improve regulatory compliance, especially in areas that are resource-intensive and procedural in nature.

For example, RegTech solutions are deployed to automate the real-time monitoring of investors' margin and collateral exposure as well as identify suspicious transactions based on defined triggers. For investor onboarding, RegTech solutions such as biometric authentication and digital workflow solutions are often used to augment investor due diligence and KYC processes. In some cases, analytics are adopted to enhance investors' suitability and risk profile assessments.

Enhance risk management



RegTech solutions are often used to comb through large volumes of data to generate insights and monitor risks, such as compliance or conduct risk.

For example, analytics that evaluate the impact of market movements and liquidity needs can help intermediaries make more informed decisions when managing portfolio risks. In the case of managing conduct risks, intermediaries have also started to deploy voice analytics to identify potential misconduct by analysing conversations between employees and customers.

Automate and streamline regulatory reporting



RegTech solutions are often used by intermediaries to integrate reporting requirements into existing business processes, streamline data collection and automate the reporting process.

This serves to enhance the accuracy and timeliness of reporting, reduce duplication of efforts in reporting and enable intermediaries to redirect the cost of manual activities to higher-value areas that require human judgement. In some jurisdictions, machine executable regulations – regulations coded in such a way that machines can interpret the regulatory requirements and act upon it without human intervention – are also being explored to fully automate the reporting process from interpreting and adapting to changes in regulatory requirements to preparing and submitting the required data to regulators.

### 4.3.2 NAVIGATING EMERGING TECHNOLOGY RISKS

While there has been an overall improvement in the industry's level of cyber security awareness and preparedness, there are still areas that can be further strengthened. Market participants need to remain vigilant, particularly in the face of increasingly sophisticated cyber threats. While the ability to detect, respond and recover from a cyber-breach will still remain a core competency in the cyber resilience framework, focus will be expanded to strengthen industry's capabilities to proactively detect cyber threats and organise their cyber defence.

Market participants would need to strengthen their ability to detect and fend off incoming attacks within their own perimeters. To that end, ongoing efforts are centred around strengthening intelligence capabilities against potential cyber threats and breaches. Market participants should also consider more extensive self-assessment methods beyond penetration tests, such as red team or blue team exercises to identify vulnerabilities and areas to be strengthened, to complement annual cyber simulation exercises.

As the cyber capabilities of the industry mature, more proactive methods for cyber defence, such as using AI models to predict and respond to unknown cyber threats can also be explored. Moving forward, the SC will continue to work closely with the industry to develop an approach to enhance cyber defence in the industry.

The human risk factor should also not be underestimated. Regular cyber security awareness and training programmes should become the norm for all employees to reduce the risk of phishing, identity theft and other social engineering threats. Market participants should also ensure that cyber security factors become increasingly embedded in the overall design of their top-to-bottom technology stack. This would help raise the level of cyber hygiene within their environment and reduce the risk of malicious intrusions into the system. For market participants considering deployment of cloud-based or as-a-service capabilities, they should be mindful that the continued responsibilities of managing cyber risks still remains with them. To further strengthen the industry's cyber posture and provide further regulatory guidance, the SC will be looking to develop a framework to regulate technology risks more holistically.

The increasing use of cloud-based services also poses several risks to intermediaries and the industry. Greater reliance on virtual platforms by intermediaries makes them potentially more vulnerable to operational disruptions – any disruption to cloud services may grind operations to a halt and potentially cause financial loss for intermediaries and investors. A single cyber incident at a cloud service provider could also potentially affect multiple intermediaries that subscribe to the same cloud service provider. Provisions in the *Licensing Handbook* currently cover some elements related to the risk of outsourcing to such providers. However, there are other sources of risk that intermediaries need to be aware of, including potential vulnerabilities due to integration with legacy systems and the risk of compromised credentials. Intermediaries utilising such services should put in place a suitable risk management framework and take measures to mitigate related risks, including having internal policies for cloud outsourcing and cloud security as well as trainings for employees.

The practice of market participants collecting and utilising increasing amounts of data, in particular the data of their clients, has become an area of growing concern. The privacy of clients is of paramount importance. In addition to ensuring that only authorised parties are allowed access to appropriate levels of client data, clients' data privacy and usage rights, as enshrined in the *Personal Data Protection Act 2010* (PDPA) and all other relevant regulations, should also be respected and upheld. This is particularly important as market participants, in addition to utilising these data internally, begin to also collect and share data from and with third parties as they aim to enrich their own offerings. Furthermore, data which is no longer relevant should be appropriately retired, disposed of or archived to prevent unnecessary mishap.

Closely related to the topic of data privacy and confidentiality is the movement for data portability and self-sovereignty as consumers are demanding increasing control over their own data. For the capital market, this could include data such as transaction history and investment records. The implementation of the GDPR created a wave of technology enhancements in Europe to ensure compliance. In anticipation of emerging regulations and standards in this area, market participants should begin internal analysis and preparations in order to be able to comply with such regulations and standards as they arise. This would include being able to extract client data in a timely manner upon request and providing it in a portable and machine-readable format.

The increasing usage of technology and analytical insights among market participants could also give rise to interesting ethical considerations and quandaries which may not have existed previously. For example, while gamification cues and features could be useful in encouraging regular savings behaviour in users, the same excessive use of such cues and features could also drive users towards reckless investment behaviour, resulting in unintended consequences. If not supported by the right risk assessment framework and parameters, the same digital distribution platforms which can help market participants easily reach and onboard a wider client base as well as enable greater financial inclusion, might result in a deluge of overleveraged issuers.

On the other hand, as more data is used to assess credit risk profiles, biases in data and analytical models could result in certain issuer segments being unfairly excluded. This is potentially exacerbated by the use of AI or machine learning methods, which remain largely 'black box' solutions. In this respect, the SC may consider issuing relevant guidance with a view towards setting principles and regulatory expectations on the increased utilisation of data analytics and AI in the market. This may include more structured governance over the usage of data analytics and AI, ethical considerations, handling of biases, protection of investor rights over their data as well as requirements for ongoing risk management and monitoring.

While the SC is supportive of the use and further adoption of advanced technologies by market participants, it must be stressed that this needs to be accompanied by appropriate risk assessment and monitoring frameworks to test and refine the outcomes of such uses of technologies. In recent years, the SC has collaborated with market participants to enable the execution of certain pilots and proof of concepts of innovative ideas and products, and will continue to do so in the future. Industry standards may also be defined, should the need arise, to serve as a reference and minimum baseline for certain practices. The SC will also continue to encourage dialogue and information sharing between regulators and market participants in order to stay abreast of emerging risks.

### 4.3.3 INTEGRATING DATA AND TECHNOLOGY ACROSS THE REGULATORY VALUE CHAIN

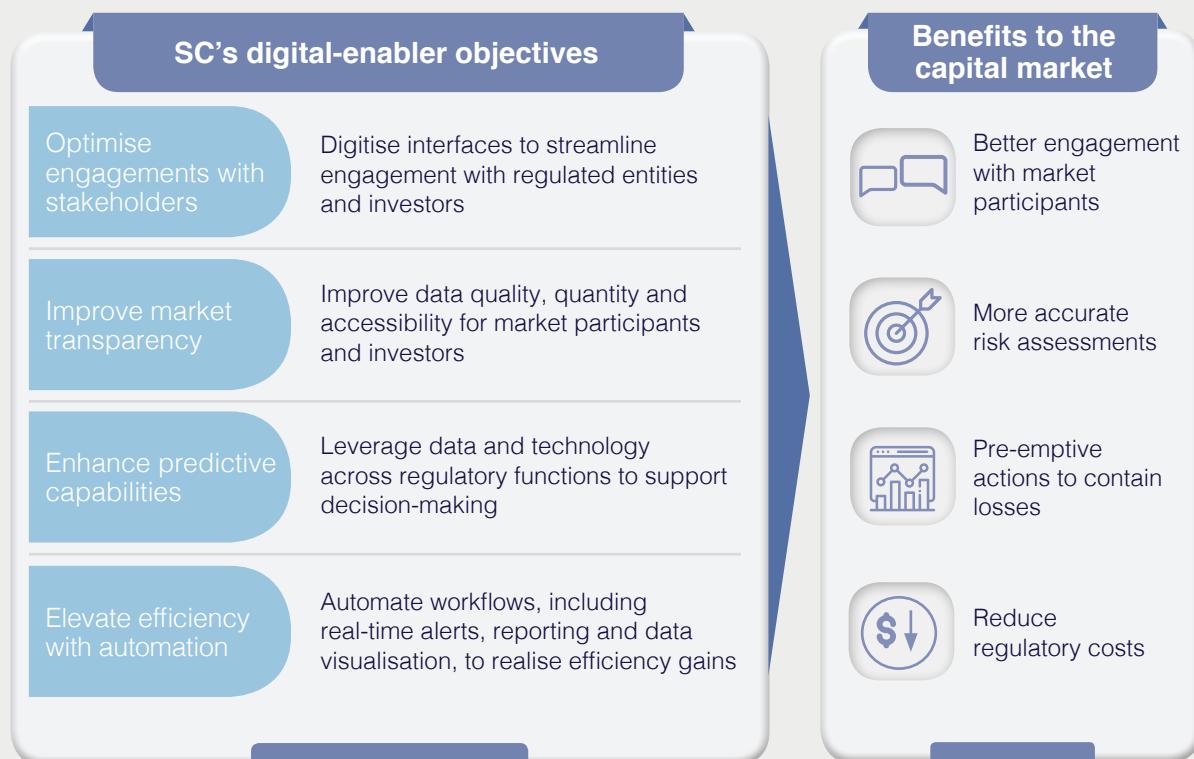
The digital transformation is not only changing how businesses operate, but how regulators perform their regulatory functions. Greater use of data and technology will continue to reshape how regulators interact with their regulated entities as well as how regulators go about understanding and regulating new techniques adopted within their respective markets. The growth in data has also changed how regulators collect, store and use data to perform their regulatory functions. Increasingly, regulators are adopting advanced analytics to sharpen their regulatory focus and efficiency.

This section discusses the role of SupTech in enhancing the SC's regulatory efficiency and effectiveness. This has become increasingly pertinent, as the nation moves forward with its digital agenda. To regulate an increasingly digital capital market, the SC will need to expand its use of data and technology. This will also complement the adoption of RegTech within the industry. The use of RegTech and SupTech will enable both market participants and the SC to collect and harness more data to generate insights that will benefit the broader industry. The promotion of better risk management through RegTech will also complement the SC's SupTech efforts in predictive supervision.

Data and technology will be key enablers to support the SC's vision of becoming more principles-based and outcomes-focused. In line with this, the SC will be crafting its technology and analytics roadmap to enable the desired outcomes as outlined in Diagram 25.

**Diagram 25**

THE SC'S DIGITAL-ENABLER OBJECTIVES WILL BENEFIT CAPITAL MARKET PARTICIPANTS



Source: SC.

The SC will build on ongoing efforts to pursue greater digitisation to optimise engagements with stakeholders. Functionalities of existing platforms such as the ComRep, the Electronic Licensing Application (ELA) and the LOLA Online Submission System, will be expanded to cover a wider range of regulatory submissions and enhanced with more dynamic capabilities. Moving forward, the SC will also prioritise the digitisation of stakeholder touchpoints that are manual or require multiple hardcopy submissions.

To improve market transparency, greater sharing of market information will be pertinent. This would entail enhancements to the type of information shared to the public and the technologies underpinning how such information is shared. For example, APIs have been used by some regulators to enable the direct integration of data with applications used by investors and intermediaries. In some jurisdictions, technologies such as chatbots and machine-readable regulations are being developed to help investors and intermediaries navigate through regulatory documents and processes more efficiently. These technologies will be explored by the SC to help deliver greater transparency outcomes and better engagements with the industry.

As the SC's supervisory scope widens and the number and types of intermediaries increases, traditional sampling methods will also become less effective. In this regard, technology can be used to analyse data more effectively to better identify high risk areas within the capital market. Technologies to analyse larger volumes and wider sources of data, including those from non-traditional sources, may be used to generate insights into areas such as misconduct analysis, market and corporate surveillance as well as systemic risk monitoring. These technologies may also be used to enhance existing or new methods of supervision and provide oversight over regulatory areas which were not previously possible using traditional methods. In addition, models may also be developed to identify areas with higher risks of misconduct in the market, enabling pre-emptive actions to be taken to reduce risks in those areas and contain potential losses.

The SC will also continue to automate regulatory workflows to realise greater operational efficiencies. Regulatory activities that are more procedural in nature and require repetitive manual labour, such as creating reports and generating alerts for further investigation, may be automated through algorithms and robotic process automation<sup>20</sup>. This will not only eliminate the risk of human error and enable faster outputs, but also free up supervisory resources to focus on higher-value supervisory activities in areas which require qualitative judgement and engagements with intermediaries.

*The digital transformation is not only changing how businesses operate, but how regulators perform their regulatory functions. Greater use of data and technology will continue to reshape how regulators interact with their regulated entities, and how regulators go about understanding and regulating new techniques adopted within their respective markets.*

<sup>20</sup> Robotic process automation enables machines to record tasks performed by humans on their computers, to be replicated and executed without human intervention.

## GOVERNANCE IN A GLANCE: THE USE OF AI TO MONITOR CG

Since 2018, the SC has leveraged an internal system – Governance in a Glance (GiG) – which uses AI to monitor the adoption of the MCCG and evaluate the quality of CG disclosures by PLCs.

The AI uses natural language processing and machine learning technique to extract data on the adoption of the MCCG best practices as well as CG disclosures and evaluate these disclosures against predetermined parameters. The evaluation results are then summarised on an interactive dashboard.

### KEY OBJECTIVES OF GIG

			
Enable efficient monitoring of the MCCG adoption and the evaluation of CG disclosures	Automate the extraction of data from the annual CG disclosures across all PLCs, which was previously a manual and resource intensive exercise	Gather insights on CG practices, including areas which may require regulatory intervention	Enable the SC to take evidence-based regulatory measures to improve CG culture and practices

## SUMMARY OF STRATEGIC INITIATIVES

### 4.1 EMBEDDING SHARED ACCOUNTABILITY WITHIN THE CAPITAL MARKET

#### 4.1.1 PROMOTING RESPONSIBLE BUSINESSES

- a. Strengthen board leadership through effective board composition.
- b. Develop capacity for ESG leadership in corporates.
- c. Evaluate approach for investor protection in relation to the management of disclosures and data as well as ESG governance and risk management.

#### 4.1.2 INculcating greater self-regulation

- a. Formulate strategies, including guidance, to incentivise greater voluntary self-reporting or co-operation.

#### 4.1.3 ENCOURAGING GREATER INVESTOR ACTIVISM AND ADVOCACY

- a. Accelerate shareholder activism and stewardship, focusing on greater use of digital tools and platforms.
- b. Implement initiatives in relation to the *Malaysian National Strategy for Financial Literacy*, together with BNM and other members of FEN.

#### 4.1.4 MOVING FURTHER TOWARDS PRINCIPLES-BASED REGULATIONS

- a. Review regulations and make provisions for principles-based regulations.
- b. Enable regulated entities through the implementation of strategies to engage, educate and guide market participants.
- c. Calibrate supervision and enforcement approaches in tandem with principles-based regulations.

#### 4.1.5 ENHANCING THE TRANSPARENCY OF THE SC'S REGULATORY APPROACH

- a. Enhance communication of regulatory principles, priorities and dimensions of decision-making.

## 4.2 PRIORITISING EFFICIENCY AND OUTCOMES

### 4.2.1 ENHANCING FOCUS ON PROTECTING INVESTORS AGAINST VULNERABILITIES

- a. Elevate supervisory and enforcement focus on misconduct relating to vulnerable investors, particularly senior investors.
- b. Collaborate with industry to identify investor vulnerabilities and best practices to protect vulnerable investors.
- c. Strengthen investor outreach programmes for vulnerable investors.

### 4.2.2 REVIEWING THE REGULATORY ARCHITECTURE FOR THE CAPITAL MARKET

- a. Conduct joint study with BNM to enhance the regulatory structure for the financial market.
- b. Review licensing and registration framework in tandem with the review of regulatory architecture.

### 4.2.3 ENHANCING SUPERVISORY EFFICIENCY AND EFFICACY

- a. Expand supervisory coverage across the industry as well as strengthen capabilities on emerging risks arising from SRI and innovation.
- b. Issue governance standards for capital market participants and enhance supervisory focus on culture and conduct.
- c. Expand the SC and AOB's SupTech capabilities to enhance supervisory efficiency.

### 4.2.4 ENABLING SWIFT, EFFECTIVE AND TARGETED ENFORCEMENT

- a. Institutionalise annual identification of the SC and AOB's enforcement priorities, in alignment with the broader priorities of the SC.
- b. Allocate resources more effectively, in alignment with the SC's enforcement strategy.
- c. Enhance the efficiency of enforcement triage and investigation, including through the exploration of new enforcement tools and use of advanced analytics.
- d. Enhance digital enforcement capabilities, including in digital forensics.
- e. Enhance communications on enforcement priorities, strategies and outcomes.

## 4.3 EMBRACING THE DIGITAL AGE

### 4.3.1 CATALYSING REGTECH

- a. Deepen understanding about RegTech within the industry through outreach programmes and industry-wide dialogues.
- b. Catalyse RegTech innovation through collaboration with other regulators, market participants and ecosystem players.
- c. Encourage the industry to adopt RegTech through education, engagements and joint-implementation of pilot projects.

### 4.3.2 NAVIGATING EMERGING TECHNOLOGY RISKS

- a. Strengthen intelligence capabilities of the SC and the industry to enhance preparedness against potential breaches and imminent threats.
- b. Develop an approach to strengthen cyber defence capabilities in the industry.
- c. Develop a framework to regulate technology risks more holistically.
- d. Develop guidance, setting out principles and standards, on the utilisation of data analytics and AI.

### 4.3.3 INTEGRATING DATA AND TECHNOLOGY ACROSS THE REGULATORY VALUE CHAIN

- a. Strengthen analytics and predictive capabilities to augment policymaking and risk surveillance.
- b. Enhance automation of process workflows to elevate efficiency across regulatory activities.
- c. Improve interface with regulated entities and market participants.

# ACRONYMS AND ABBREVIATIONS

ACGA	ASEAN Corporate Governance Association
ACMF	ASEAN Capital Markets Forum
AE	advanced economy
AgeTech	age technology
AI	artificial intelligence
AML	anti-money laundering
AOB	Audit Oversight Board
API	application programme interface
AUM	asset under management
BCG	Boston Consulting Group
BDC	business development company
BigTech	big technology companies
BIX	Bond+Sukuk Information Exchange
BNM	Bank Negara Malaysia
BRIDGe	Brokerage Industry Digitisation Group
CAGR	compound annual growth rate
CFD	contract for difference
CFT	combatting the financing of terrorism
CG	corporate governance
CMCF	Capital Market Compensation Fund
CMM	Capital Markets Malaysia
CMP2	<i>Capital Market Masterplan 2</i>
CMP3	<i>Capital Market Masterplan 3</i>
CMSA	<i>Capital Markets and Services Act 2007</i>
COE	centre of excellence
ComRep	Common Reporting Platform
COP26	26 <sup>th</sup> United Nations Climate Change Conference
CPO	crude palm oil
DAX	digital asset exchanges
DDoS	distributed denial of service
DIM	digital investment management
DLT	distributed ledger technology
DOSM	Department of Statistics Malaysia
ECF	equity crowdfunding
ELA	Electronic Licensing Application
EMDE	emerging market and developing economy
EME	emerging market economy
e-MIS	e-Members Investment Scheme
EPF	Employees Provident Fund
ESG	environmental, social and governance
ETF	exchange-traded fund
FCPO	crude palm oil futures
FDI	foreign direct investments
FEN	Financial Education Network
FIMM	Federation of Investment Managers Malaysia

FMDG	Fund Management Industry Digitisation Group
FMI	financial market infrastructure
FP	financial planner
FA	financial adviser
FPAM	Financial Planning Association of Malaysia
GDP	gross domestic product
GDPR	General Data Protection Regulation
GFCF	gross fixed capital formation
GHG	greenhouse gas
GiG	Governance in a Glance
GLIC	government-linked investment company
HNWE	high-net-worth entity
HNWI	high-net-worth individual
ICDM	Institute of Corporate Directors Malaysia
ICM	Islamic capital market
IEO	initial exchange offerings
IIC	Institutional Investors Council
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPO	initial public offering
JC3	Joint Committee on Climate Change
KWAP	Kumpulan Wang Persaraan (Diperbadankan)
KYC	Know Your Customer
LOLA	Lodge and Launch
MCCG	<i>Malaysian Code on Corporate Governance</i>
MCII	<i>Malaysian Code for Institutional Investors</i>
MidS	Mid and Small Cap
MRA	Mutual Recognition Agreement
MSME	micro, small and medium enterprise
MSWG	Minority Shareholder Watchdog Group
MTC	mid-tier company
MyCIF	Malaysia Co-Investment Fund
OCIS	Oxford Centre for Islamic Studies
OTC	over-the-counter
p.a.	per annum
P2P financing	peer-to-peer financing
PA	principal adviser
PAM	portfolio account management
PDPA	<i>Personal Data Protection Act 2010</i>
PE	private equity
PLC	public-listed company
PNB	Permodalan Nasional Bhd
PRI	Principles for Responsible Investments
PRS	private retirement scheme
RegTech	regulatory technology
REIT	real estate investment trust
RMO	recognised market operator
SAC	Shariah Advisory Council
SAFE	Simple Agreement for Future Equity

SARS	Severe Acute Respiratory Syndrome
SBL	securities borrowing and lending
SC	Securities Commission Malaysia
SCA	<i>Securities Commission Act 1993</i>
SIDC	Securities Industry Development Corporation
SIDREC	Securities Industry Dispute Resolution Center
SIFI	systemically important financial institution
SPAC	Special Purpose Acquisition Company
SRI	sustainable and responsible investment
SRO	self-regulatory organisation
SupTech	supervisory technology
SROC	Systemic Risk Oversight Committee
TCFD	Task Force on Climate-Related Financial Disclosures
TDF	target date fund
UCITS	Undertakings for Collective Investment in Transferable Securities
UK	United Kingdom
UN	United Nations
UN SDG	United Nations Sustainable Development Goals
US	United States
VC	venture capital

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# THE APPROACH TO THE CMP3

Regular stakeholder engagements, consultations and dialogues have always been integral to the SC's approach to the development and implementation of policies and initiatives for the capital market. The SC consequently drew on the information and feedback obtained from these conversations and interactions to guide the formulation of strategic priorities for the CMP3.

These regular interactions have taken place through various departments of the SC over a broad range of platforms. These include national-level committees and forums, bilateral engagements, industry-wide dialogues and public consultations. Development and regulatory engagements were held via forums such as Brokerage Industry Consultative Committee (BICC), BRIDGe, CG Council, FMDG, JC3, Malaysian Venture Capital and Private Equity Development Council (MVCDC) and supervisory engagements. In addition, the SC interacts with market participants through outreach programmes such as InvestSmart and NaviGate, and with the FinTech ecosystem through innovation programmes such as Alliance of FinTech Community and the SCxSC Fintech Conference. At the regional and global level, the SC interacts regularly with the network of regulators in ACMF and IOSCO, and strategic and collaborative partners such as World Bank and OCIS. These domestic, regional and global platforms have allowed the SC to draw insights from ministries, government agencies, regulatory authorities, capital market institutions and intermediaries, industry groups and associations, investors, businesses, subject-matter experts and other stakeholders.

In developing the CMP3, a cross-functional taskforce led by the SC's Executive Team brought together the organisation's insights and perspectives, across all the engagement platforms, to shape strategic recommendations that will take the capital market forward. This brought members of the SC's development and regulatory functions into workgroups, workshops and meetings, to debate, discuss and align on the way forward. The in-house macroeconomics and risk analysis, coupled with findings by the various departments in the SC, have been instrumental in shaping the strategic direction of the CMP3. Insights derived from the SC's affiliates including BIX, CMM, Institute for Capital Market Research Malaysia (ICMR), SIDC and SIDREC were also taken into account in the development of the CMP3.

Over the next five years, the SC will focus on implementing these strategies through the annual business planning exercise, and monitor progress against the defined desired outcomes. In the course of doing so, the SC will continue to draw on inputs and feedback from the SC's stakeholders to enhance and refine the various work programmes.

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