

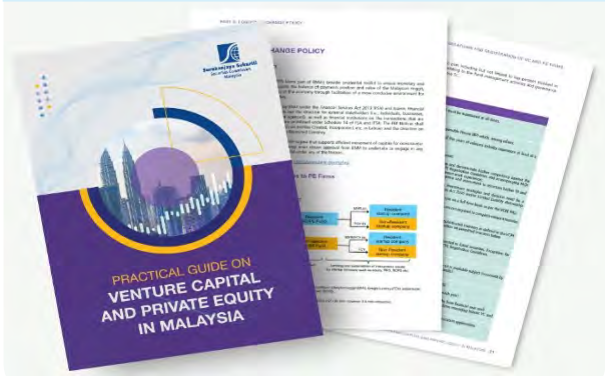
Enhancing Access in Malaysia’s Private Markets

The VC and PE industries are important components of the alternative financing ecosystem in the Malaysian capital market, playing the essential role of mobilising capital as well as nurturing promising startups and high growth enterprises. Facilitating the growth of private markets is thus essential to the SC’s aim of promoting financial inclusion and increasing the breadth and depth of the domestic capital market.

In 2024, the SC took significant steps to support Malaysia’s VC and PE ecosystem. This included releasing the *Practical Guide on Venture Capital and Private Equity in Malaysia* and streamlining the VC registration process for eligible VCs through the introduction of the VC Golden Pass.

What is VC and PE Practical Guide?

The Practical Guide for Venture Capital and Private Equity in Malaysia offers a crucial overview for managing VC and PE funds, designed to aid prospective fund managers, investors and service providers.



Recognising the critical role of VC and PE firms in funding innovative and high-growth companies, the Guide provides greater clarity on the VC and PE landscape. It does so by outlining Malaysia’s regulatory environment, covering key areas such as capital market regulations, taxation, fund structuring, and foreign exchange to promote ease of investment and operational transparency. This represents the SC’s broader commitment to nurturing Malaysia’s entrepreneurial ecosystem, aligning with national aspirations to foster a globally competitive startup environment and establish the country as one of the top 20 global startup hubs by 2030.

Complementing these efforts, the SC introduced the VC Golden Pass to expedite the registration process for eligible international VCs, reducing application times from six weeks to two weeks. This initiative aligns with the SC’s broader strategy of encouraging knowledge transfer, best practices, and capital inflows, further embedding Malaysia within the global investment community.

VC Golden Pass

Objectives

Attract sizeable global and regional VCs to establish presence in Malaysia

Incentives



Expedited registration approval from 6 weeks to 2 weeks, subject to a complete submission and applicant fulfilling all requirements of the SC’s Focus Scope Assessment



Support letter from the SC in obtaining **Employment Pass** for VC senior management and staff, together with the SC’s approval for VC registration

Eligibility



Existing global AUM of at least US\$100 million



Commitment to building local presence – physical office in Malaysia with a least two local staff in the investment team

Through these initiatives, the SC reinforces its commitment to fostering a robust and inclusive financial ecosystem, further positioning Malaysia as a leading hub for VC and PE within Asia. By lowering operational barriers, enhancing market transparency, and encouraging knowledge transfer, the SC not only broadens financial access for local businesses but also aligns with the national KL20 agenda. Together, these efforts serve to attract global investors, support high-impact growth sectors, and contribute to Malaysia’s long-term economic resilience and competitiveness.

Widening Sophisticated Investor Categorisation

While Malaysia's current investor categorisation has provided a solid foundation, a comprehensive review identified opportunities to enhance inclusivity, particularly for the mass affluent. In this regard, the SC introduced the *Sophisticated Investor Framework* in 2024 to expand the categories of sophisticated investors and broaden capital market access. The revised framework offers access to a more diversified pool of investments, better aligning with investors' financial capacity and risk profiles, and underscores the SC's commitment to fostering an inclusive investment environment.

Key features of the expansion include a new category that considers the knowledge and experience of sophisticated investors. In addition, enhancements to current categories were made, allowing flexibilities of existing financial thresholds for high-net-worth individuals (HNWIs). The new 'Knowledge and Experience' category will benefit individuals who do not meet financial tests but are able to demonstrate financial knowledge sophistication to participate in relevant market offerings. This category assesses potential investors based on their education, recognised financial association membership, and practical experience in relevant sectors such as banking, capital markets or insurance.

Another key change is the inclusion of an investor's primary residence value, up to a cap of RM1 million, in assessing their qualification as a sophisticated investor. The definition of a joint account is also expanded to incorporate accounts with a spouse or child, including total net joint annual income and investment portfolios. This expansion will better depict a family's collective financial status and investment potential.

This reinforces the SC's commitment to maintain capital market competitiveness and vibrancy, while promoting greater investor participation. Previously, categories of sophisticated investors were prescribed in Part 1 of Schedule 6 and Schedule 7 of the *Capital Markets and Services Act 2007* (CMSA). This has now been moved to *Guidelines on Categories of Sophisticated Investors* to facilitate these changes.

Facilitating Greater Diversity Within The Fund Management Industry

Over the years, the SC has enabled greater diversity of products, services and distribution channels within the fund management industry in recognition of the evolution of investment preferences. For example, in 2022, the wholesale fund framework was expanded to enable domestic managers to invest in more alternative investment products via special purpose vehicles. Additionally, the e-services framework was introduced in 2020, to enable e-wallets and e-payment service providers to democratise the online distribution of capital market products, including unit trust schemes.

In order to achieve better outcomes for investors, the SC recognises the importance of enabling a wider range of perspectives, skills and expertise within the industry to drive innovation and in product, services and distribution channels. In this regard, the SC introduced two measures to grow the diversity and number of fund management firms and representatives.

The first is, liberalising the licensing requirements around corporate ownership in the fund management industry. This move allows entities beyond those traditionally associated with the financial sector to obtain licences and undertake fund management activities. By enabling non-traditional financial institutions to participate, the SC is fostering greater competition, promoting innovation, and encouraging the adoption of new business models within the industry.

Secondly, the SC has expanded the minimum qualification and experience requirements for fund managers. This change acknowledges experience in premier banking, financial planning (FP), and unit trust consulting (UTC) as relevant for portfolio management roles. By opening fund management to professionals from these diverse backgrounds, the SC aims to attract a wider range of expertise and increase the talent pool, ultimately enhancing the industry's capability to deliver superior fund management services.

A more diverse pool of firms and fund management personnel will drive growth, better serve the evolving needs of investors, and keep the industry competitive in an ever-changing market. By broadening access and encouraging diverse participation, the SC is helping to build a more inclusive, vibrant, and resilient fund management industry.

Enhancing the investor base: Family Office Tax Incentive Scheme

In the next decade, capital markets globally will be experiencing the largest intergenerational transfer of wealth in history. The 'baby boomer' generation, born between the 1950s and 1960s, is now retiring and passing on their wealth to the next generation. According to McKinsey, between 2023 and 2030, ultra-high-net-worth (UHNW) and high-net-worth (HNW) families in the Asia Pacific region are set to experience an intergenerational wealth transfer estimated at US\$5.8 trillion. UHNW families are expected to account for about 60% of the total wealth transfer, and many are setting up family offices to facilitate the process. Family offices serve as an investment office for UHNW families and provide a range of services including wealth management, legal, bookkeeping and tax planning, insurance and risk management, concierge and family services, governance, education and succession planning, and philanthropy.

The growth of family offices offers a unique and valuable opportunity for capital market intermediaries and service providers to deliver highly personalised and tailored solutions. Fund managers and financial planners are well-positioned to benefit from this expanding sector. Family offices, often seeking bespoke investment strategies, provide fund managers with the chance to oversee large, diversified portfolios that go beyond traditional asset classes. For financial planners, the rise of family offices opens doors to a range of comprehensive services, from estate planning and tax optimisation to succession planning, allowing them to cater to the complex, multi-generational needs of these clients.

Equally, capital market service providers such as trustees, alongside professionals like accountants and lawyers, are integral to the smooth and efficient functioning of family offices. These professionals provide services, including asset administration, legal compliance, and tax optimisation, which are critical to ensuring the long-term sustainability and seamless transfer of wealth across generations.

MOF and the SC recognised the significant opportunity family offices presented for domestic capital markets and sought to capitalise on it. As a result, the Single Family Office Tax Incentive Scheme (SFO Scheme) was introduced. The SC has been empowered to lead the co-ordination and implementation of the SFO Scheme.

The Forest City Special Financial Zone (FCSFZ) was established to lure foreign family offices to invest in Malaysia and leverage talent within Malaysia as well as attract Malaysian families with investment abroad to repatriate foreign currency holdings to Malaysia to be managed here. The incentive scheme provides for a 0% concessionary tax rate on income generated from eligible investments by the Single Family Office Vehicle (SFOV) for an initial 10 years and subsequent 10 years subject to several conditions being fulfilled. This includes:

- Hold AUM of at least RM30 million; meet minimum local investment in eligible and promoted investments of at least 10% of asset under management (AUM) or RM10 million, whichever is lower;
- SFOV to spend operating expenditure (OPEX) locally at a minimum, of RM500,000 annually;
- Employ a minimum of two full-time employees of whom at least one is an investment professional, with minimum monthly salary of RM10,000;

Establishing the SFO Scheme enables Malaysia to enhance its investor base by attracting regional and Malaysian families to manage their wealth from Malaysia. The projected economic multiplier of this initiative from the local substance requirements is estimated to range from RM3.9 billion to RM10.7 billion, which also includes the positive effects on the creation of skilled employment and the demand for other ancillary services.

The establishment and growth of family offices in Malaysia hold great potential for the broader economy. As wealth is reinvested domestically, it has the power to fuel the expansion of Malaysian companies and industries, fostering innovation and driving economic growth. Beyond financial investments, family offices can also play a pivotal role in supporting local communities through philanthropic initiatives, contributing to social development and creating a lasting impact on the well-being of society.

By creating a conducive environment for family offices and leveraging Malaysia's robust regulatory framework to encourage reinvestment of wealth within the country, Malaysia is well-positioned to strengthen its capital market, empower local businesses, and enhance its global competitiveness. The continued development of family offices aligns with the nation's vision for sustainable, inclusive growth, ensuring that both financial and social capital are harnessed to drive a prosperous future for all Malaysians.

